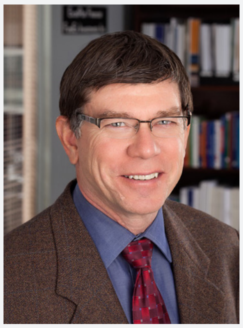
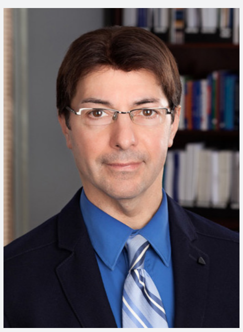
# Money Ideas

Fall 2022




David K. Lord, P.Eng.
Financial Advisor

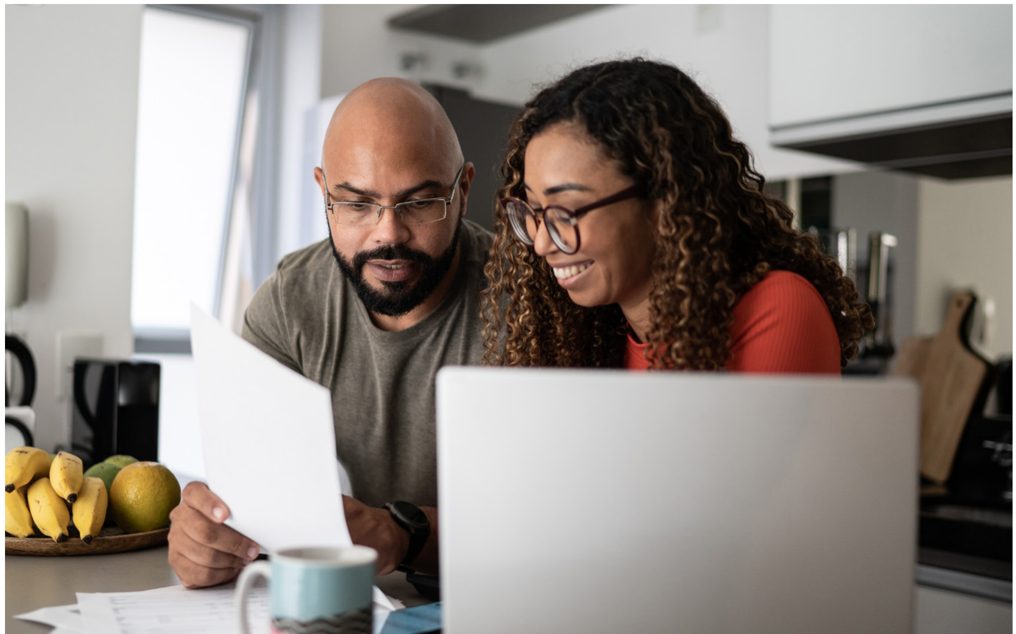




Frank Trolio
Certified Financial Planner

ExcelPlan Financial

ExcelPlan Financial
Investia Financial Services Inc.
440 Elizabeth Street, Suite 300
Burlington, ON L7R 2M1

Telephone: (905) 639-8008
Toll-Free: (800) 461-2862
Fax: (905) 639-2268
E-mail: dklord@excelplan.ca
E-mail: ftrolio@excelplan.ca

▶ MUTUAL FUND INVESTING

## Taking care of your financial peace of mind

Market corrections can come out of nowhere. Investors generally felt optimistic when 2022 began, following a banner year of equity mutual fund performance. In the U.S., the S&P 500 Index reached record highs in 2021, and at home the S&P/TSX Composite Index posted a 25.1% total return. But markets turned volatile in the early months of 2022 and when the correction struck during spring, investors saw their portfolio value drop.

It's perfectly normal to feel anxious when your investments lose value, but there are ways to look at the situation that can help you stay calm.

### Ways to view volatility

First of all, bear markets or corrections have always been with us, and every time the markets have recovered. The market plunge triggered by the 2020 pandemic was followed by a quick recovery, whereas the market fallout resulting from the 2008 financial crisis required a longer recovery period. Patience may be required, but market corrections are historically followed by recoveries and, eventually, bull runs.

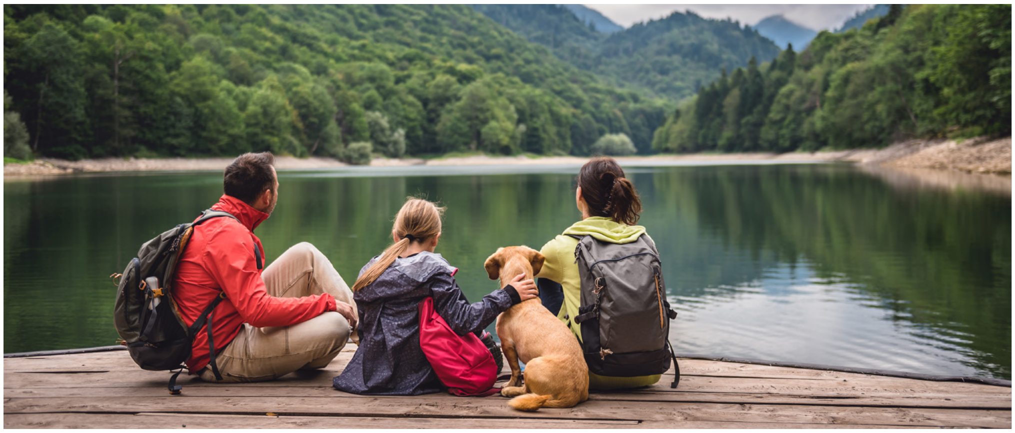
You can also look at a down market as a buying opportunity. By continuing to invest in mutual funds, you accumulate more fund units when prices are lower, aiming to profit when markets eventually recover.

Another important thing to keep in mind is the longer time horizon. Say an investor is 10 years away from beginning to withdraw funds to provide retirement income. That's typically plenty of time to allow for a market recovery and to position their mutual fund portfolio to fund their retirement. Focussing on the long-term objective, not on short-term volatility, can be helpful psychologically.

### Talk to us

Finally, if you feel anxious about the market's effects on your portfolio, please talk to us. We can help reassure you that temporary pullbacks won't prevent you from achieving your longer-term goals – and that support can go a long way towards giving you financial peace of mind. ◀

# Achieving multiple financial objectives



Do you remember the days when multiple financial goals meant saving for the down payment on your first home while putting a little away in Registered Retirement Savings Plan (RRSP) mutual funds?

Then life happened. Add education savings to the mix, an emergency fund, and saving for family trips or a vacation property. Soon enough you're juggling half a dozen or more financial goals, and it can feel overwhelming.

## Two traps to avoid

If you ever attempted to meet multiple financial goals before you had an advisor, you may be aware of two common traps. The first is over-committing to near-term goals, which is tempting because they're more easily attainable. But that spells trouble if you underfund long-term goals that rely on early contributions for compound growth.

The second trap is spreading your money thinly among too many goals without prioritizing needs over wants. You then risk falling behind on everything.

Understanding these traps can give you a better appreciation of what's behind an effective plan.

## Creating a balance

Your mutual fund investment program is the result of a strategic plan that properly distributes your monthly savings amount across short-term, medium-term, and long-term goals.

**The process.** It all begins by listing your current goals, categorizing them by time horizon, and prioritizing your goals according to needs and wants. Next is determining each goal's total cost and breaking down that sum into an amount to save annually, and ultimately each month or pay period. This stage requires some give-and-take to find a balance where shorter-term goals can be realized without putting longer-term goals at risk.

Next, we recommend which registered or non-registered vehicles (or a combination) suits each goal. We then choose the asset allocation between fixed-income, cash-equivalent, and equity mutual funds appropriate for each goal, based on the given time horizon and on your personal risk tolerance.

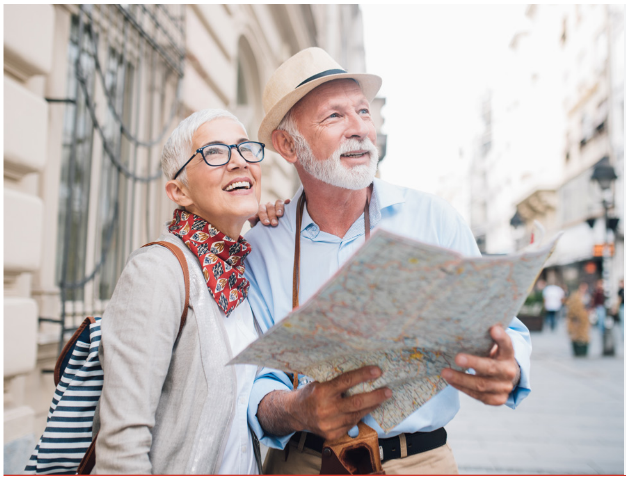
**Targeted or blanket approach.** Most often, when matching goals to investment vehicles, we use a targeted approach. This is where a goal is assigned to one or more vehicles, with specific investments designated to meet that singular goal. For example, the goal of building an emergency fund for retirement years might be assigned to one spouse's Tax-Free Savings Account (TFSA), using a conservative mix of fixed-income and equity mutual funds.

Sometimes a blanket approach is used instead, where a pool of investments covers several goals with similar time horizons. An example is a large allocation of fixed-income investments in a non-registered account that meets a variety of short-term needs, like a kitchen upgrade or the down payment on a new car.

## Monitoring your goals

We regularly review your goals to make sure they remain on track – and make adjustments if needed. Also, we monitor each goal's time horizon, making the asset allocation more conservative as you approach the period when you'll begin to access funds.

Changes are also made if a life event affects your financial status. For example, someone who makes an equalization payment in a divorce may need to scale back some spending, whereas a couple who just paid off their mortgage may be able to fast-track one or more goals. Whatever your situation, we're here to help you keep your finances in tune with your goals. ◄

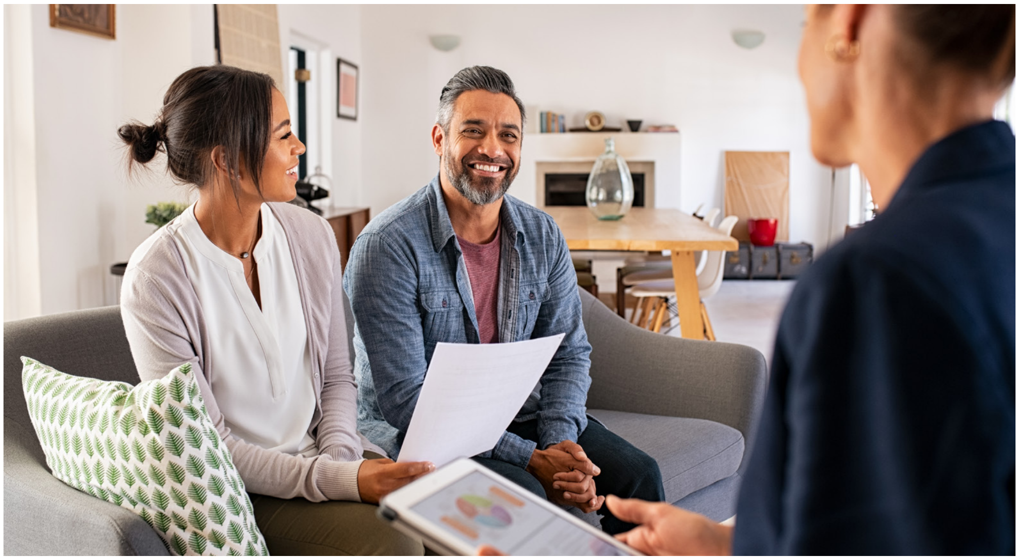


# Tell us when your goals change

As life evolves, financial goals change: a child becomes engaged and you'd like to cover the wedding costs; you wish to go on a long overseas trip; your child announces they aim to study medicine out of province.

All of these life changes have financial consequences. You may face the challenge of needing to save more, or to decrease the amounts you dedicate to existing goals. Alternatively, you may find you have freed-up cash flow to apply to other goals. Whatever your situation, keep us up to date when your financial goals change, and we can help you keep your finances on track to meeting them. ◄

# Choosing between a TFSA and an RRSP



A Tax-Free Savings Account (TFSA) is the ultimate mutual fund vehicle for flexibility. You can use it as an emergency fund or to save for short-term goals. You can use a TFSA to split income among family members or to achieve long-term goals, such as meeting estate planning needs. You might even use a TFSA to supplement education savings.

Here, we're going to look at just one use – retirement savings. Which is better to fund retirement income – a TFSA or Registered Retirement Savings Plan (RRSP)?

## It's all about the tax bracket

Say that your marginal tax rate in the year you make a contribution is the same as the rate in the year you make a withdrawal. In that case, a TFSA and an RRSP perform equally.

RRSPs perform better than TFSAs when your tax bracket upon contributing is higher than your tax bracket when you make withdrawals in retirement. That's the typical case for primary income-earners.

TFSAs outperform RRSPs if the tax bracket when contributing funds is lower than the tax bracket when withdrawing funds. This could apply to a lower-income spouse or an adult child starting out.

## Three helpful strategies

The math may be quite clear on when either a TFSA or an RRSP wins out, but guessing what your marginal tax rate will be in retirement may be less clear. Also, factors beyond the numbers may affect your choice. Here are strategies that take these matters into consideration.

**Choose both.** You can't always predict with confidence whether your marginal tax rate in retirement will be lower or higher than your current year's rate. In this case, you may wish to hedge your bets. Contribute half of your annual savings amount to mutual funds in an RRSP and half to funds in a TFSA.

**Make a switch.** You may be contributing to TFSA mutual funds during years you're in a lower tax bracket – but then your income increases and you're in a higher bracket. At this point, you can switch to making RRSP contributions. Keep in mind that you had still been building RRSP contribution room during all those years you had chosen a TFSA. Talk to us to determine if it's beneficial to withdraw any TFSA assets and contribute those funds to your RRSP to take advantage of the tax refund.

**Protect your savings.** A key benefit of TFSAs is how easy (and tax-free) it is to take your money out. However, when your objective is to save for retirement, easy withdrawals might not prove so beneficial. You could be tempted to take out funds intended for retirement and spend those dollars on any number of wants (vs. things you actually need). For this reason, some people choose mutual funds in an RRSP over a TFSA. You're less likely to make withdrawals that are heavily taxed as regular income – and funds that cannot be replaced, as that RRSP contribution room is lost permanently.

If anyone in your family faces the TFSA versus RRSP decision for retirement savings, feel free to contact us. We can help assess both the financial and personal factors in making the best choice. ◂

# When a TFSA and an RRSP perform equally

This illustration shows that a TFSA and an RRSP provide equal amounts of retirement income if the marginal tax rate is the same when funds are contributed and withdrawn.

| | Contribution (Pre-tax dollars) | Tax at contribution (30%) | Net contribution | Value in 25 years (5% growth) | Tax at withdrawal (30%) |
|---|---|---|---|---|---|
| TFSA | $1,000 | $300 | $700 | $2,370 | n/a |
| RRSP | $1,000 | n/a | $1,000 | $3,385 | $1,015 |

Net amount $2,370

The net contribution reflects that TFSA contributions are made with after-tax dollars, and RRSP contributions are made with pre-tax dollars. Investment growth is calculated with interest compounded annually.

## Can playing it safe be risky?

In periods when markets are underperforming, some investors may be tempted to only invest in very safe, low-risk mutual funds, instead of making their regular contributions. But a move from equity mutual funds to fixed-income and cash-equivalent funds has risks of its own. Focusing on lower-risk investments means accepting lower returns, which makes it difficult to achieve long-term goals, such as saving enough for retirement. It's even more difficult when you factor in the negative impact of rising inflation.

There's a significant benefit to continuing to invest as usual when markets are down. Your regular contributions purchase more mutual fund units when prices are lower. That can give your portfolio solid gains in a market recovery.

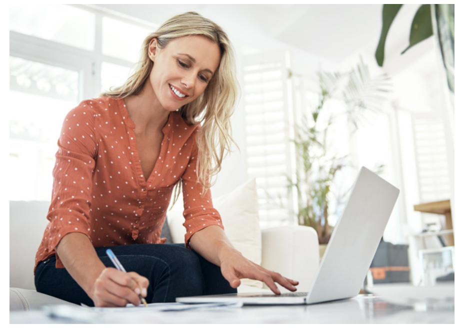
Of course, there are times when it's wise to play it safe with low-risk mutual funds: for example, when building an emergency fund or saving for short-term goals, like a vacation. Also, investors typically favour lower-risk fixed-income funds as they approach an investment goal, such as making education savings more conservative when a child gets closer to secondary school graduation. In these cases, a move to safety helps ensure that you reach your investment goal. ◀

## Timing TFSA withdrawals

When you plan your year-end financial to-dos, it's a good idea to keep any upcoming Tax-Free Savings Account (TFSA) withdrawals in mind.

Say that someone has always contributed the maximum annual amount to mutual funds in their TFSA and plans to make a withdrawal in the next few months to pay for a bathroom renovation. If they take out the money in January 2023, they can't replace those funds until 2024 – the year following the withdrawal.

But if the withdrawal is made by the end of December, the amount will be added to next year's TFSA contribution limit. They would have the favourable option



to replenish the withdrawn amount with a mutual fund investment anytime in 2023.

Note that this year-end strategy applies to individuals who have contributed their current lifetime limit to their TFSA. If you have TFSA contribution room available, you can contribute up to your allowable limit at any time. ◀

## How often should you check your investments?

There was a time when investors would only view their mutual fund investment performance every month or quarter. Today, with up-to-date account information available online or on a smartphone, many investors check their balances a couple of times a month, weekly, or even daily.

Active investors who are constantly buying and selling shares would have good reason to check their investments frequently. But traditional mutual fund investors with well-diversified portfolios and a long-term objective are usually fine monitoring their investment performance monthly, quarterly, or at even longer intervals.

If you do check your investments frequently and it doesn't affect your wellbeing, you're fine. However, it's a different story if you're prone to worrying.

While markets, historically, trend upward over time, any short-term period may consist of a series of upswings and downturns. Constantly witnessing this volatility reflected in your portfolio can be stressful. In this case, you may want to check your portfolio less often for greater peace of mind. ◀