



WEALTHBUILDING INSIGHTS

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Personal Newsletter from Erin Dall, The Wealthbuilding Group — Harbourfront Wealth Management

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Looking Beyond Today

It has been said that change is the only constant, and the investing world is no exception. For more than a year, we've seen the effects of a rapid change in inflation and interest rates on the financial markets.

These have been difficult times for investors. As the central banks continue their fight against inflation, much of the ongoing financial market volatility relates to the uncertainty over the path forward for interest rates. Consider the situation to start the year: Good economic news was perceived as bad news by the markets, creating worries that the central banks would continue raising rates. This sentiment has continued due to uncertainty after the collapse of Silicon Valley Bank in the U.S., a reminder that the aggressive rate hikes were likely to have consequences.

While it may be hard to see beyond today, there will be a time when inflation is eventually brought under control, though patience has been needed. As investors, we would be wise to remember that changes in interest rates, inflation, monetary and economic policy and many other factors have always created near-term uncertainty in previous times. Every financial cycle has its own challenges that differ from those that came before. Yet, this doesn't preclude the opportunity to continue building wealth. Throughout time, the companies that succeed in meeting the challenge of change are rewarded with higher stock prices. And, over time, in spite of the many challenges, economies have continued to grow, demonstrating our collective ability to adapt and advance. This time is no different.

One such reminder may come with the excitement generated by the artificial intelligence (AI) chatbox, ChatGPT. With its potential disruption capabilities, in a recent OpEd, Henry Kissinger went so far as to say that the evolution of AI may "*redefine human knowledge, accelerate changes in the fabric of our reality and reorganize society.*"¹ While these are very early days — it is premature to suggest exactly how this technology will shape the future — ChatGPT demonstrates the human pursuit to innovate, one of the underlying drivers of growth throughout time. Business cycles have operated under long waves of innovation; Earlier revolutions, such as those sparked by the development of railroads, electricity and the automobile ignited upwaves of economic growth that lasted for many decades. Our focus has always been on the longer term, and though we face current challenges, there are many reasons to expect that future growth will continue.

Equally important, we are here to manage through the ever-changing times. A sound investment process involves having a plan to set priorities, assessing the changing landscape and the potential opportunities to come, in conjunction with the risks involved, and making informed decisions when necessary — all with a view for the longer term. Thoughtful analysis, evaluation and portfolio oversight are skills that should be trusted to help guide us through the unavoidable cycles. While it may be easy to get discouraged with current conditions, have the patience to see this period through. Try to look beyond today — we will get through this difficult period — markets and economies will adjust and better times lie ahead.

1. <https://www.wsj.com/articles/chatgpt-heralds-an-intellectual-revolution-enlightenment-artificial-intelligence-homo-technicus-technology-cognition-morality-philosophy-774331c6>

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- Don't Want to Act as Estate Executor?
- Educate (Grand)Kids on the FHSA
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“Take Five, Tell Two” — Protecting Yourself & Others Against Scams

A recent article in the popular press provides a candid reminder: *“the fraud landscape is exploding...targeting anyone and everyone.”*¹ And, as the number of scams continues to grow, fraud has become increasingly sophisticated.

Phishing attacks, where deceptive messages fool victims into providing sensitive information, are now using multiple channels concurrently to target victims. For instance, scammers leave voicemails or texts about an email or phone call they just made to add credibility or increase the urgency of the request.² Scammers are increasingly forming longer-term relationships with victims to build credibility. In one type of financial scam, scammers befriend victims via text or social media, and over time eventually convince them to invest using websites that look like legitimate trading platforms. Victims are then tricked into thinking their investments are making money and are encouraged to invest more. This scam was commonly associated with cryptocurrencies, but has since evolved to focus on the gold market.³

How can we protect against these rising scams? As a starting point, one expert suggests adopting the approach of: “take five, tell two.” If you are solicited by others, *“take five minutes to think about it, and then talk to two different people about it before doing anything.”* This can prevent us from making rash decisions. Educating ourselves and others, especially the vulnerable, is also important. Often, there are common “red flags” that indicate a scam:

- **It seems too good to be true.** Many financial scams offer the opportunity for quick gains. If it appears too good to be true, it likely is.
- **Personal/financial information is requested.** Be wary when personal information of any kind is requested or asked to be confirmed. Credible sources are unlikely to ask for this.
- **There is a sense of urgency.** Many scams pressure individuals to

act immediately or focus on lost opportunity or penalties to evoke fear.

- **There is secrecy or you are made to feel guilty.**

Some scams try to evoke feelings of guilt or shame; others prey on loneliness or isolation. In many cases, victims are asked to keep matters secret.



It goes without saying that we should all maintain a sense of vigilance when it comes to sharing our personal information. Not responding can be one of the best ways to stay safe. Don't answer a call if you don't recognize the caller; often a scammer's goal is to find out if a phone line is active. Never respond to emails, text messages or social media requests from unknown sources. If you aren't certain if a situation is credible, double check. An internet search can often determine if others have received similar messages/calls. Or, if a source claims to be a legitimate company, try calling a general number found on the internet.

There are tools that can add an additional layer of protection. Anti-phishing software and other cyber security tools can help protect against potential attacks. Many mobile phone companies now offer “call control” that can help screen out robo-callers or spammers.

Stay updated on evolving scams and new targeting methods. Many online resources report the latest scams and offer ways to protect against fraud: Better Business Bureau, www.bbb.org/ca/news/scams; Canadian Anti-Fraud Centre, www.antifraudcentre-centreantifraude.ca

1. www.cbc.ca/news/canada/toronto/fraud-scams-tips-avoid-ontario-1.6764432; 2. www.cnn.com/2023/01/07/phishing-attacks-are-increasing-and-getting-more-sophisticated.html; 3. www.consumeraffairs.com/news/fools-gold-the-story-behind-a-fake-gold-market-pig-butcherer-scam-021523.html

Educating (Grand)Kids: The FHSA — A Potentially Valuable Tool

With the cost of home ownership becoming increasingly out of reach for many younger folks, our clients often have questions about the opportunity to assist (grand)children with buying a home or condo.

There are a variety of ways to help fund a (grand)child's property, including purchasing the property in your name, gifting cash for the purchase or lending funds to the child. Each comes with various tax and family law issues. For example, if the home is not designated as a principal residence, there may be future significant tax consequences to the owner on any capital gain realized upon its sale. Or, if the child is married/common-law, there may be concerns about what will happen to the property if the couple splits. As always, we recommend seeking advice from tax professionals and family law experts.

Planning Ahead

If (grand)children are still years away from a first home purchase, the First Home Savings Account (FHSA) may be a valuable tool. The FHSA is a registered plan that combines the tax benefits of the RRSP and TFSA; tax-free in and tax-free out. Eligible Canadian residents ages 18 and over can contribute up to \$8,000 per year, to a maximum of \$40,000, toward a first home. Contributions are tax deductible, and qualified withdrawals are tax free. The FHSA can remain open for 15 years.*

While the limit has been criticized as being too low given current housing prices, the potential to invest funds and allow them to grow in the FHSA may be significant (chart). A couple who are both first-time home buyers could potentially each access the FHSA. As well, the rules now permit the use of the existing Home Buyers' Plan (HBP) alongside the FHSA.¹ The HBP allows first-time buyers to withdraw up to \$35,000

from the RRSP, subject to repayment in 15 years and other conditions. Together, these tools

Potential Growth of FHSA in 15 Years – Assuming 5% Annual Growth; Not Including Tax Benefit from Contribution

Year	Contribution	Start of Year	Growth	End of Year
1	\$8,000	\$8,000	\$400	\$8,400
2	\$8,000	\$16,400	\$820	\$17,220
3	\$8,000	\$25,220	\$1,261	\$26,481
4	\$8,000	\$34,481	\$1,724	\$36,205
5	\$8,000	\$44,205	\$2,210	\$46,415
...15	—	\$72,005	\$3,600	\$75,606

could provide a substantial down payment for a home.

If you are having conversations with (grand)children about saving for the future, the FHSA may be an important consideration. If you are in need of support with financial literacy discussions with adult children, please don't hesitate to reach out.

*This article is intended to provide a brief overview of the rules. For more information, please get in touch; 1. This was changed from the original proposals in Budget 2022.

Estate Planning: I Don't Want to Act as Estate Executor

It can be an honour to be named as estate executor (liquidator),* as it signifies a person's trust that you will carry out their wishes as intended. Sometimes individuals accept the position without fully understanding the duties or responsibilities that come with the role. Or, circumstances can change and the person may no longer be able to assume the role, perhaps due to health issues, incapacity, job change or a move to another province or country, which can make the role challenging or difficult.

What happens if the named executor decides that they aren't able to carry out the duties — or maybe that they no longer want to?

It is possible to step down from the position. If the executor hasn't yet applied for probate, they are generally able to renounce the role as executor by providing formal documentation to the courts.** However, if the executor has applied for probate and started administering the estate (called "intermeddling"), renouncing the role may be more difficult. They may need to apply to the courts and provide an explanation of why they wish to step down. Since the estate administration has begun, they may be held liable by the beneficiaries for any loss in value to the estate. It is also possible that the court could refuse this request, especially if the executor is well into administering the estate.

This is why it's important to think carefully from the start about the role.

As you consider your own estate's executor...

- Make sure the person you ask is comfortable in the role;
- Consider naming an alternate executor;

- Periodically review your named executor's circumstances to account for changes. Reach out to them to discuss their current capacity to ensure they are still willing and able;
- Don't be afraid to consider the support of a corporate executor, to act alongside an appointed executor or as sole executor.



If you are asked to be someone's executor...

- Recognize that the role can be difficult and may involve many hours of work, emotions and potentially complex family dynamics;
- Don't be afraid to ask questions. Is it a complex estate? Are there any potential surprises that may emerge?
- Remember this is a fiduciary role with legal obligations and liabilities;
- If your circumstances change, make sure to let the person know. This includes if you plan on moving jurisdictions, face health issues or have a change in responsibilities that make it difficult to assume the role.
- Don't be afraid to say no if you don't think you can handle the obligation.

As always, consult an estate planning professional as it relates to your particular situation.

*For the purposes of this article, we refer to the person appointed to settle the estate as the executor, also called the liquidator in Quebec and may go by other terms based on province of residence.

**May vary by province: i.e., in QC, the liquidator cannot refuse the role if they are sole heir.

Don't Overlook the Impact of Taxes & Inflation on Investment Returns

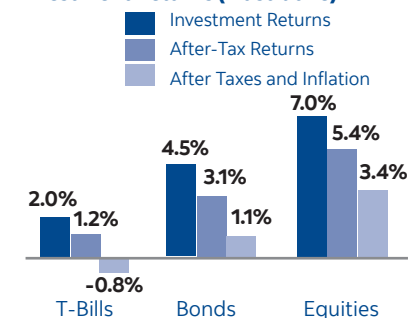
As a reminder, when we think about our investments, consider the impact of taxes on returns. And, as inflation continues to be at above-average levels, we should also not overlook its effect on returns.

Consider the way that different types of investments in non-registered accounts are taxed. Interest income from fixed-income investments like guaranteed investment certificates or treasury bills is taxed at an investor's highest marginal tax rate, similar to regular income. Equities receive the most favourable tax treatment because only 50 percent of the capital gain is subject to income tax. Dividend income is generally taxed at a lower rate than interest income because of the dividend tax credit that applies to most dividends received from eligible Canadian corporations.

Inflation can also erode an investment's returns as it reduces purchasing power over time. Today, as interest rates have risen to levels not seen in decades, there may be excitement at the prospect of achieving a four percent rate of return on low-risk, fixed-income investments like guaranteed investment certificates (GICs). While the "nominal" return — before inflation — may be around 4 percent, with inflation hovering around 6 percent today, the "real" return ends up being negative, at around -2 percent, and this is even before considering taxes. Today, savers can't even keep up with declining purchasing power. Of course, historically, interest rates have generally been higher than the inflation rate, which makes today's situation

unique. And, inflation isn't expected to remain at these elevated levels; it continues to show signs of moderating. Since 1990, the longer-term average inflation rate — and the target of the central banks — has been closer to 2 percent. The chart (right) shows the potential effect of both taxes and inflation on varying investment returns in a non-registered account based on longer-term averages (illustrative).

The Impact of Tax and Inflation on Investment Returns (Illustrative)



*Based on non-registered accounts. Assumes 40% tax rate on interest income; 20% on capital gains; 30% on dividend income. 2% long-term inflation rate. T-Bill returns: 2% interest income; Bond returns: 2.0% capital gains; 2.5% interest income; Equity returns: 5.0% capital gains; 2.0% dividend income.

The bottom line? As investors, we need to ensure that our assets can grow enough to offset the potential effects of inflation. History has shown that being invested in equities over the longer term has been a good way to stay ahead of inflation. We also should not overlook the impact that taxes can have on our investment returns, using tax-advantaged accounts, such as the RRSP and TFSA to our benefit. The opportunity to allow investments to grow over time while being sheltered from taxes has never been more important.

During Volatile Times: Perspectives on the Equity Markets

Renowned investor Warren Buffett is well known for saying, “our favourite holding period is forever. When we own portions of outstanding businesses with outstanding managements, we expect to hold them for a long time.”¹ Yet, despite these words of wisdom, consider how the average holding period for stocks has changed over time. For the NYSE, back in the 1950s, the average holding period was 100 months, or 8 years. By 1990, this dropped to 26 months. And today, it is closer to 5.5 months!²

What has caused this decline? Technology has been one of the biggest drivers. Up until the 1970s, trading systems were not automated, which limited the number of trades that could be processed each day. The chart below shows how trading volume has grown over time. Technology has also significantly lowered the cost of transactions. And, with the connectivity of the internet, it has enabled investors of all kinds to trade, with information widely distributed and easy to access.

NYSE Trading Volume History

Year	NYSE Avg. Daily Trading Volume (# Shares)
1886	1M
1982	100M
2020	1,000M

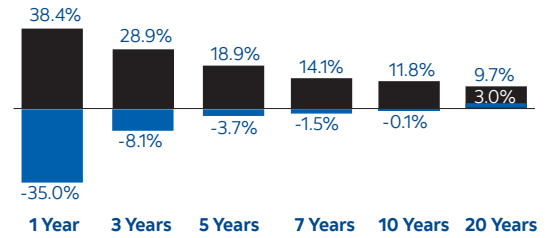
Source: <https://www.visualcapitalist.com/the-decline-of-long-term-investing/>

Yet, history shows that when it comes to investing in the stock market, the longer your ability to focus, the better. Why? The variability of equity market performance smooths out substantially as the investing period grows. The graph (top, right) shows the range of outcomes for the best and worst annualized returns of the S&P/TSX Composite Index (not including dividends reinvested) from 1956 to the start of 2023. These figures were calculated using rolling annual returns. Over one-year periods, the variability is substantial: historically, you could have experienced a variation in annual returns of between -35.0 percent and +38.4 percent (and if you were to use rolling monthly returns, the analysis shows that the variance would be even greater!) However, as the time horizon extends to decades, the range of outcomes narrows significantly and the likelihood of negative returns also diminishes.

During volatile times, for some investors it may be difficult to maintain a longer-term view. But, the long and the short of it is

that by extending a time horizon, historical probabilities continue to favour the long-term investor.

Best & Worst Annualized Returns Over Different Holding Periods: S&P/TSX Composite Index Since 1956



Using S&P/TSX Composite Index rolling annual returns (not including dividends reinvested), 1956 to 2022.

Let’s also not forget that equities

continue to be one of the best asset classes in which to generate wealth and beat inflation over time. We could choose to invest in other assets like low-risk, fixed-income investments to avoid this volatility, but then we would also forego the potential returns over the longer term. Just how much of a difference can this make over time? The chart (right) looks at the period from 1975 to 2022, which includes times of higher inflation and interest rates. History has shown that being invested in equities over the longer term has been a good way to stay ahead of inflation. Equities also receive favourable tax treatment: capital gains are taxed at a lower rate compared to interest and other income.

Historical Real Returns 1975 to 2022 (Inflation Adjusted Returns)

Asset Class	% Real Return	Amount if \$100 Invested in 1975*
Equities (S&P 500)	8.0%	\$20,656
Bonds	3.8%	\$3,796
Cash	0.5%	\$726
Inflation	3.7%	—

Equities: S&P 500 with dividends reinvested; Bonds: 50% 10-year Treasury, 50% Baa Corporate Bonds; Cash: 3-month T. Bill. *Does not include impact of taxes. Source: https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html

A Parting Thought: While we continue to endure more challenging equity market times, maintain a longer-term perspective. Markets have always been cyclical and better days lie ahead. Equities continue to be an important part of building wealth for the future. Continue looking forward!

1. <https://www.berkshirehathaway.com/letters/1988.html>; 2. New York Stock Exchange (NYSE) data from <https://www.visualcapitalist.com/the-decline-of-long-term-investing/>



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