PLANNING MATTERS

Quarterly Financial Planning Newsletter from Coleman Wealth

Spring 2019 - 1st Edition

Pedro and Nik's Tips and Tricks

- **Pedro:** Now that we are in the midst of tax season, when reporting your capital gain/loss on your tax return, please note that the buying cost of sold shares is required.

  If you have not kept a record from previous trading summaries, don't worry, we can help. Call me and I'll generate a gain and loss report to assist you with your tax return, making it easier for you to recount the gain/loss.

- **Nik:** Please note that the TFSA contribution limit for 2019 is $6,000, an increase from $5,500 in 2018. Contributions can be made by Canadian residents aged 18 or over (at the time of contribution), up to the amount of their unused contribution room.

  As of January 1st, 2019, the total cumulative contribution room for a TFSA is $63,500. Please also note that your RRSP contribution limit for 2019 is 18% of earned income you reported on your tax return in the previous year, up to a maximum of $26,500.

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9 Resolutions for 2019

Start 2019 right by reviewing and revamping your financial plan.

Eat less and exercise. Let's assume that with March now here, those resolutions will shortly be packed away like our snow boots. Instead, how about focusing on something that's also very good for you in the long run – and even sooner? We're talking about your financial plan – your fiscal health, if you will. It is a great time to review your plan and make whatever revisions might be indicated. With that in mind, here are nine suggested resolutions that, if followed, will go a long way toward helping to ensure that your later years will be financially secure.

1. Where am I?

The first step in starting any journey is knowing where you're starting from. Updating your personal balance sheet (assets and liabilities) is the first and regular step in any wealth plan. From working with Vikki and Andrea previously, you should have a clear indication of what you need to reach your financial goals successfully. If this isn't a conversation we have had together yet, get in touch with Vikki and we can get started. If you're already retired, you also need to know if the income you receive from the Canada Pension Plan (CPP)/Quebec Pension Plan (QPP), Old Age Security (OAS), retirement plan assets, or other sources is still going to support your current lifestyle. Either way, you've got to have a scorecard. Everything else really proceeds from this, so take the time to bring all these numbers up to date.

2. Who owns what?

Account ownership often occurs haphazardly – an individual opens a bank or brokerage account, meets Mister or Miss Right, they live together or get married and… down the line there's a problem. If one partner dies and that bank or other account is still titled only in the original holder's name, those assets can't be readily accessed by the survivor. The solution may be as straightforward as changing to joint accounts, but it's not always that simple. In fact, ownership has implications across a wide range of estate planning issues, as well as other situations such as tax planning and borrowing power, to mention just a few. Account ownership is more than just using the right form – it can also be a tool for estate planning. Review your account ownership and determine if that's still the arrangement you want. Get in touch with us if you want to have a chat about what may make sense in your particular situation.

3. Who gets what?

This is an easy mess not to create. If you don't correctly document and update your beneficiary designations, who gets what may be determined not according to your wishes, but by federal or provincial law, or by the default plan document used in your retirement accounts. When did you last update your beneficiary designations? Has something changed in your life (divorce, remarriage, birth, death) that necessitates changing your beneficiaries? You should review/update beneficiary information on items such as wills, life insurance, annuities, RRSPs, RRIFs, IRAs, 401(k)s, TFSAs... (and the list goes on) to ensure your assets end up where you want them. Have you provided for the possibility that your primary beneficiary may die before you? Have you provided for the simultaneous death of you and your spouse? You need a good estate planner to walk you through the various scenarios.

4. Do not make a mess

Many investors (not our clients, of course) think that by keeping accounts with multiple advisors allows them to diversify their portfolio. This approach is actually to their detriment. If your financial advisor doesn't have complete transparency in to your entire financial situation, you may find that you are holding the same investments over multiple firms. It's like your family doctor: they need to know all the prescriptions you are taking. Multiple financial institutions also makes tracking overall performance, asset allocation and tax preparation difficult for you. Another important consideration is the challenge that having accounts spread around multiple firms poses for your executor upon death. Locating the whereabouts of your all of your accounts and processing each firm's documentation can be an onerous and time-consuming task. It can also significantly delay the time for your inheritance to pass from your estate to your beneficiaries.

5. Where's the money coming from?

Most retirees have several sources of income such as the Canada Pension Plan (CPP)/Quebec Pension Plan (QPP), Old Age Security, U.S. Social Security, employer-sponsored pension plans, retirement portfolios, and rental properties. Every individual picture is different. Knowing when to commence income from all of your various sources can be challenging. Maximizing government pensions, taking income tax-efficiently and knowing the rules around minimum withdrawals in various registered plans can be overwhelming to most retirees. We are here to help you with creating a strategy to sequence your retirement income that will be most beneficial to your unique situation.

6. Check the government's numbers!

If you've worked any time since you were 18, you've already started to save for your retirement through your contributions to the Canada Pension Plan (CPP)/Quebec Pension Plan (QPP). You'll find the details in an important financial document called a statement of contributions. It gives you details on your earnings and the contributions you have made so far to the CPP/QPP. Employment and Social Development Canada (EDSC) regularly mails statements to selected audiences of Canadians; however, you can go online to view and print your

(CPP) statement of contributions/(QPP) statement of participation. The information on your statement determines the amount of CPP/QPP benefits you will receive, so it is important to check the accuracy of the data carefully and let EDSC know if anything is incorrect. We suggest setting yourself up with a MyServiceCanada account which provides you with your CPP statement of contributions and other helpful information such as your RRSP deduction limit, TFSA contribution room and more. You can actually apply for CPP through your account on this website provided you reside in Canada. https://www.canada.ca/en/employment-social-development/services/my-account.html

If your employer provides an employer-sponsored pension plan, you need to review your plan's details, and be sure to understand what type of plan you have – a "defined benefit plan" (pension income is predetermined based on a formula) or a "defined contribution plan" (pension income is not pre-determined; it's based on the amount you and your employer contributed, including earnings). We are always here to help you with planning for your retirement. Provide a statement of contributions or better yet, your CPP estimate to Vikki or Andrea and they can assist you with determining what your retirement income may look like.

7. Giving so it's good for you

Charitable giving: There are many ways to make donations. Many give cash, of course. Some give assets such as art collections. Others designate charities as the beneficiary of a life insurance policy, RRSP or RRIF. Think strategically about your contributions as there are tax-effective strategies for making gifts, such as gifts of publicly traded securities. The tax benefits of charitable giving can be substantial, but CRA rules can be complex, so it is important to ensure the planning is structured properly. We can help you build charitable giving into your financial plan and teach you about how you can use a Raymond James charitable giving account to create a charitable legacy.

8. Stay in your lane

The past few years may have derailed and/or delayed the retirement plans of many investors. The important thing is to respond and determine – promptly and realistically – to what changes might be needed. In evaluating the current state of your plan, don't fixate solely on a number – "We'll be fine when our retirement portfolio is worth $X" – that just isn't the way retirement works anymore, if it ever did. There are so many factors at play when planning for your retirement such as how your cash flow will look like than, what inflation rate to use, when to start taking your government and work pensions. This is a challenge for all Canadians and we are here to help you! The truth is that retirement has a lot of moving parts that must be monitored and managed on an ongoing basis. Revisiting your retirement plan with us on an annual basis can help check in to see if you are staying on track. Again, if we haven't looked at your retirement plan together yet, please feel free to reach out to Vikki to see how to get started.

9. Just do it!

By now you should have a good idea of where you stand overall, your cash flow situation (including whether you're saving enough), your retirement income picture looks like, and where the shortfalls or other challenges are. Do you need to adjust your contributions to your RRSPs or other retirement plans? Does it make sense to convert your RRSP to a RRIF before age 71? Do you need to adjust your tax withholding? If you're due for a raise, how about channeling the extra money into a retirement account? Are you taking full advantage of your employer's retirement plan options, particularly any contribution match program? Regardless of whether you're years away from retirement or fairly close, the effects of compounding can be very significant – if you take advantage of them. Go after any problem areas – or opportunities – systematically and promptly.

Introduction to Nick Murray

Nick Murray is one of the industry's premier speakers, author of twelve books for financial services experts, and favourite of Darren's. His latest Client's Corner article reflects on the recent Christmas Eve massacre and how 2018's fourth quarter faired historically in comparison to previous bear markets, titled in About Par for the Course.

Client's Corner: About Par for the Course

JAMES WHITCOMB RILEY (1849-1916), THE HOOSIER POET, IS widely credited with the original form of the saying that has come down to us as, "If it walks like a duck, swims like a duck and quacks like a duck, then it's probably a duck"—this despite the fact that no form of it appears in his writings. The bear market in the S&P 500 which troughed (at this writing) in the Christmas Eve Massacre was in some ways reminiscent of this droll gem of inductive reasoning.

Purists might note with asperity that the recent decline failed to achieve a closing low at least 20% below its previous closing peak: having fallen from a close of 2,930.8 on September 20 to 2,351.1 on December 24, it was down only 19.8%. But here on Planet Earth, if it lumbered like a bear and roared like a bear and clawed like a bear, it was probably a bear.

Permit me to observe that this decline acted very much like those of 2011 (down 19.4% in five months) and 1998 (down 19.3% in six weeks!).

And if the true test of a bear market is how utterly terrifying it was—as denominated in how much money it scared out of the market—then the 95-day wonder through which we've recently passed more than qualifies. Since the only thing new in the world is the history one doesn't know, permit me to observe that this decline acted very much like those of 2011 (down 19.4% in five months) and 1998 (down 19.3% in six weeks!).

The unpleasantness of 2018's fourth quarter is by my count the 15th bear market since the end of World War II, for an average of roughly one every five years or so. In that sense, at least, it was about par for the course.

(Parenthetically, allow me to hazard an unscientific guess that not one in five readers of these little essays could easily recall what the specific economic issues were that took the wind out of the market's sails for those five months in 2011, and that perhaps one in 20 could readily call to mind the sources of 1998's 45-day panic attack. Inching just a little further out on this same limb, let me gamely guess that by 2028, not only will fewer than one in 10 be able to give you back the putative causes of the recent downdraft—Trump, global slowdown, Fed trying to strangle the economy, Trump, government shutdown, Trump—but hardly anyone will even remember that it happened. Just one man's opinion, of course, but there it is.)

The really interesting thing to me about 4Q2018 wasn't the extent to which the whole world was capable of freaking out about a glorified speed bump in the absence of any fundamental deterioration in the American economy. (Note well, in the latter regard, the blowout jobs and wages report of January 4th.)

It's that, if you weren't able to check stock prices and particularly your own account values—if the only data series that were available to you all year were cash dividends and share repurchases—you could be forgiven for thinking that 2018 must have been one of the greatest years—***if not the single greatest year***—for equities in your lifetime.

The numbers are still coming in at this writing, but it seems probable that in 2018 corporate America returned to its shareholders slightly more than a trillion dollars in the form of share repurchases. Moreover, the cash dividend paid by the S&P 500 reached something like $53.60 per share—likewise a new record—up 9.5% from the previous year ***and more than double what it was as recently as the last bear market year of 2011.*** (My source here is the annual posting by the New York University scholar Aswath Damodaran; **click here** or google "S&P earnings history—NYU Stern School." Don't hurry away from this chart, because it has a lot to tell you.)

Nothing in this little essay is to be taken as a prediction that the Christmas Eve low was the bottom, that the equity market has already resumed its long-term uptrend, or that the sun is going to come up tomorrow. I have no basis for prediction of any kind. But I may perhaps have a little perspective, in that I've now personally experienced 11 of those 15 post-WWII bear markets as an investment professional of one sort or another.

Specifically, I mentioned that there had been two other very-nearly-but-not-quite-20% declines in the S&P 500 in the last 20 years: the first in 1998, and the second in 2011. Using very round numbers (which you can check yourself on Yahoo Finance's S&P 500—Historical Data tab): the 1998 event bottomed at S&P 957, the 2011 episode at 1,099, and the Christmas Eve Massacre, as we've observed, at 2,351.

Anybody besides me seeing a pattern here?

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