PLANNING MATTERS

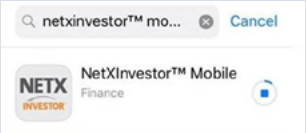
Quarterly Financial Planning Newsletter from Coleman Wealth

Spring 2021 - 1st Edition

Tips, Tricks & Reminders

- **Katie**
  Did you know?
  For clients of ours with U.S.-based investment accounts, there is an app available in the app store that enables you to track your portfolio! Simply follow the steps below and don't hesitate to reach out if you have any questions:

  1. To install the app, search "***netxinvestor***" in the app store:



  2. Enter "***AJR***" for institution number along with your NetXInvestor ID and password:

- **Pedro & Nik**
  Reminders:
  For Canadian resident clients holding accounts on our domestic Raymond James Ltd. (RJL) platform, it's important to be aware that we cannot accept instructions from a U.S resident appointed POA. If the appointed POA is a non-resident of Canada, excluding the U.S., we may be able to take instructions if the POA was drafted in Canada. This is dealt with on a case-by-case basis.

  For Canadian resident clients holding accounts on our U.S. platform, Raymond James (USA) Ltd., "RJLU", we are able to accept instructions from a U.S. resident appointed POA, provided the POA was drafted in Canada.

Is it time to update my estate plan?

By Andrea Thompson, CFP (CAN), CRPC (U.S.), CLU, CHS, CDFA

Certainly, it's never bad to review, revisit or restart your estate planning. Often, it's hard to know where to start! Here are a few helpful hints for your estate planning, or for the estate planning of a loved one.

1. Regarding the Will and Powers of Attorney you have in place, and the individuals you have named as executor, attorney for property and attorney for personal care, do any of the following apply to you?

Red Flags:

- Your will has not been reviewed or revised in the last 5 years
- You do not have a Will and/or Power of Attorney
- Your executor/attorney may not want to accept the appointment or does not know they have been named
- Your executor/attorney is elderly
- Your executor/attorney is outside of the province, state or country
- There is no alternate executor/attorney
- You are interested in exploring a professional executor/attorney

2. Do you have any of the following assets, including those outside of Raymond James, and how do they factor into your estate plan?

Red Flags:

- Corporate assets, particularly operating businesses
- No succession plan for operating businesses
- Multiple pieces of real estate
- Assets in multiple jurisdictions
- Assets owned jointly with another person (other than spouse)
- Other complex assets (e.g. mortgages, trusts)

3. Do you have any of the following structures in your estate?

Red Flags:

- Blended family
- Family conflicts
- Most family / friends are the same age or older
- No close family (geographically and/or emotionally)
- You don't have great confidence in the family member or friend appointed as executor/attorney

4. Who do you want to leave your estate to?

Red Flags:

- Minor, disabled or financially irresponsible beneficiaries
- Beneficiaries in multiple jurisdictions
- Large part of estate intended to go to charity
- More than 4 beneficiaries (including charities)
- Mix of beneficiaries from different categories

If any of these may apply to you and you have not had a professional review your will, we are happy to do a complimentary in-house will review to determine if there is a better way to set up your estate plans to remove complexity and ensure a smooth estate process. As well, experts from our professional trust division, Raymond James Trust (Canada), can advise and guide you through this often complicated and misunderstood process.

Dear FP...

"My father is 89 and has a fairly simple estate. He lives in a long term care facility, has a RRIF worth $400,000, and receives CPP and OAS income. He has named my sister and I as beneficiaries of the RRIF when he dies. Do we need to be concerned about probate or any other taxes when he passes?"

Hi, that is a great question and one that comes up quite often!

There is no probate to be paid if there are named beneficiaries on a RRIF account, so you're okay there. Probate is only payable on assets that flow through the Will, assuming that he has a Will to deal with any residual assets – usually this would be things like bank accounts, real estate, and individual investment accounts. Or, if there wasn't a beneficiary named on the RRIF.

Your issue lies with the RRIF. When your dad passes away, the full value of the RRIF is taxable to your dad's estate. If he were to pass away tomorrow, when the RRIF value is $400,000, your dad's estate would be on the hook for ~$200,000 in taxes in the year of death. The financial institution holding the RRIF doesn't have any requirement to withhold any taxes on behalf of an estate, and the RRIF value is paid out directly to the beneficiaries (as they are named on the RRIF account).

Where does the money to pay the tax come from? If there is not $200,000 left in the estate (from bank accounts or other assets), CRA can go after you and your sister as beneficiaries, and in this case, you would be considered to be liable for those taxes. You should get professional tax advice if you are asked to pay taxes for the estate. If there is nothing left in the estate to pay the taxes, you and your sister should be prepared to hold your inheritance aside until the estate is fully settled.

I should also mention that the executor has no requirement to go after the beneficiaries for the taxes – it is solely CRA – and even in this case, there is no legal requirement for CRA to do so. It's just something they can do.

If your dad was younger, he could have considered putting in place a permanent life insurance policy to cover the estimated value of the taxes owed on the RRIF at his life expectancy.

Please submit your "Dear FP" question to coleman.wealth@raymondjames.com and we'll be happy to answer it in one of our upcoming newsletters!

Client's Corner

The Terrible Temptation to Hold Cash

AS I WRITE, LESS THAN 13 MONTHS after the S&P 500 made its panic low around 2,200, it has closed above 4,100. It has nearly doubled. In just a bit more than a year. Something like that doesn't happen very often.

When it does, however—when equity prices go on a terrific tear, often following a big decline—a dark and very powerful human instinct leaps to the fore. It's the impulse that says:

"The market's too high."

"It's come too far, too fast."

"There's bound to be a significant pullback."

"Let's wait for that."

I cannot overstate how normal and even fundamental this impulse is. It is every bit as basic as the instinct to flee the market when stock prices are declining sharply: you almost wouldn't be human if you didn't feel it. So my first bit of advice in this little essay is: go ahead and feel it. (What choice do you have? You're human.) ***Just, for heaven's sake, don't give in to it.***

Because it's bound to be wrong. Even when, for some little while, the market acts like it was the right impulse. Hold that thought for a moment, if you will, while I engage in a digression.

There is a much larger truth at work here—one that is at the root of all the unforced errors that go into a lifetime of investment failure. It is that ***there is a whole suite of basic, normal impulses—indeed, human nature itself—that feel so right, and turn out to be so deeply wrong.***

We just noted another one: flying out of equities in falling markets, instead of shopping opportunistically before the sale ends. Here is yet another: buying whatever has been the hottest performer in the last block of time. That is, buying the thing that went up the most ***before you bought it***. ("But my brother-in-law bought it last October, and he's way dumber than I am, ***and he's making a fortune!***")

Let me spell this larger truth out for you, so you can't miss it. ***Basic human nature is antithetical to lasting investment success.*** As Warren Buffett's teacher Benjamin Graham famously put it, "The investor's chief problem—and even his worst enemy—is likely to be himself."

This, incidentally, is why your financial advisor was sent into the world. Not to forecast the economy nor time the market, but ***to save you from yourself***. To dissuade you, as gently as possible, from running away from great values when they're on sale, and running toward overhyped fads. Again: these powerful impulses do not make us unintelligent. ***They make us human.***

That concludes the digression. We now return to the specific destructive impulse under discussion: "market's too high/wait for the pullback." Herewith, a suggested methodology for beating back this demon of a misguided idea.

1. Call on that first and most important quality of the lastingly successful equity investor: humility. If I say the market's too high, and must set back significantly before it resumes its long-term advance, I am in effect claiming to be smarter than all the global owners of some $34 trillion in equities—the current market capitalization of the S&P 500. I've decided that I see something those institutions and wealthy individuals do not. ***They have all stampeded heedlessly into mispricing the whole market, and I alone have perceived this.*** Possible? Certainly. Probable? I think not—and neither will you, when you view the issue through the lens of humility.

2. Remember your plan, and continue to work it. The next most powerful antidote to impulse is a financial plan and/or a formal investment policy. If, for instance, you are accumulating capital for retirement, your plan almost certainly calls for you to invest steadily toward a date-specific, dollar-specific goal. ***See that you do so.*** That is: act on your plan, not on any impulse and/or current event. In the fullness of time, you will discover what all successful equity investors eventually learn. To wit: in the long run, the best time to buy more quality equities was when you had the money, regardless of what the market was doing at the time.

3. Realize that to successfully execute your "strategy"—wait for significantly lower prices and buy then—you'll need to be right twice. Not only do you have to be right that the market is just about to set back, but then you have to be right again regarding your eventual entry point. Hear this from a friend: ***you won't be***. Human nature again: if the market now proceeds to reward you with its average annual decline approaching 15%, a dozen "expert" pundits will begin caterwauling in unison that much lower prices are coming. You'll hold on to the cash, delighting in how right you've been. And you'll miss the turn. It's inevitable. More than that, it's ***human nature.***

4. Accept that the historical odds of catching a significant decline in the next year are three to one against you. Since 1926, equity returns (with dividends reinvested) have been positive roughly three rolling 12-month periods out of four. (Sources: Morningstar, YCharts.) By holding cash, you're asserting that the historical one negative year in four will be along just about any minute now. Indeed, you may effectively be betting your retirement on it. Are you pretty sure that's what you want to do? (Before answering this admittedly rhetorical question, you may wish to take counsel of your financial advisor. I predict you'll find that he/she will have rather strong feelings on the subject.)

Peter Lynch said the last word on this issue, and it bears repeating.

"Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in corrections themselves."

For myself, as an investor, I can only add that it isn't being in the next 20% market setback that scares me. ***It's being out of the next 100% advance.***

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