PLANNING MATTERS

Quarterly Financial Planning Newsletter from Coleman Wealth

Summer 2020 - 1st Edition

Tips, Tricks & Reminders

Pedro

- Please be aware that the Canada Emergency Response Benefit (CERB) payments are fully taxable. If you have any questions regarding your filing, please don't hesitate to contact our team as we can put you in touch with the right tax professional if you don't already have one.
- The CRA is further extending the payment due date for 2019 individual tax returns and 2019 or 2020 corporation, or trust returns, as well as for instalment payments, from September 1, 2020, to September 30, 2020.

Nik

RRIFs

- The minimum required withdrawal for all RRIF accounts has been reduced by 25% for the year 2020. Individuals who have already withdrawn more than the reduced 2020 minimum amount will not be permitted to re-contribute the excess amount back into their RRIFs. Tax will only be withheld if you withdraw more than your unreduced minimum amount. The 25% reduction applies to the entire minimum amount for 2020.

IRAs

- The Internal Revenue Service today announced that anyone who already took a required minimum distribution (RMD) in 2020 from certain retirement accounts now has the opportunity to roll those funds back into a retirement account following the CARES Act RMD waiver for 2020.
- The 60-day rollover period for any RMDs already taken this year has been extended to August 31, 2020, to give taxpayers time to take advantage of this opportunity.

An update from the team:

As we're nearing the end of summer, we wanted to give you an update on what we've been up to.

Darren and his wife Sue recently dropped off their son David to High Point University in North Carolina, where he'll begin his freshman year as a student athlete playing baseball!

Andrea's twins Ella and Julian turned two on July 18!

Pedro is currently enjoying some time off with his daughter!

Vikki and her husband started a new chapter moving out of the city and to Collingwood for the next year.

Nik and Neil and their partners both bought their first homes in Oakville and have started to acclimate themselves to life in the suburbs.

Questions to ask ourselves as we continue to navigate these uncertain times:

- How has the pandemic impacted your household budget? Are you spending more? Less? Do you need to revisit some of your retirement planning assumptions based on these newly developed habits that may persist moving forward?
- Has the ability to work remotely changed your view towards real estate and the desire to live in a central area?
- Given the many constraints we're all living within, including but not limited to travel, how has your retirement or future retirement objectives been impacted?
- Has the inability to travel impacted how I want my everyday lifestyle to look like?
- Are there any new hobbies and interests you've picked up as a result of much more time in the house?
- Are the things that we considered high priority in our lives six months ago still as important today?

Return Expectations

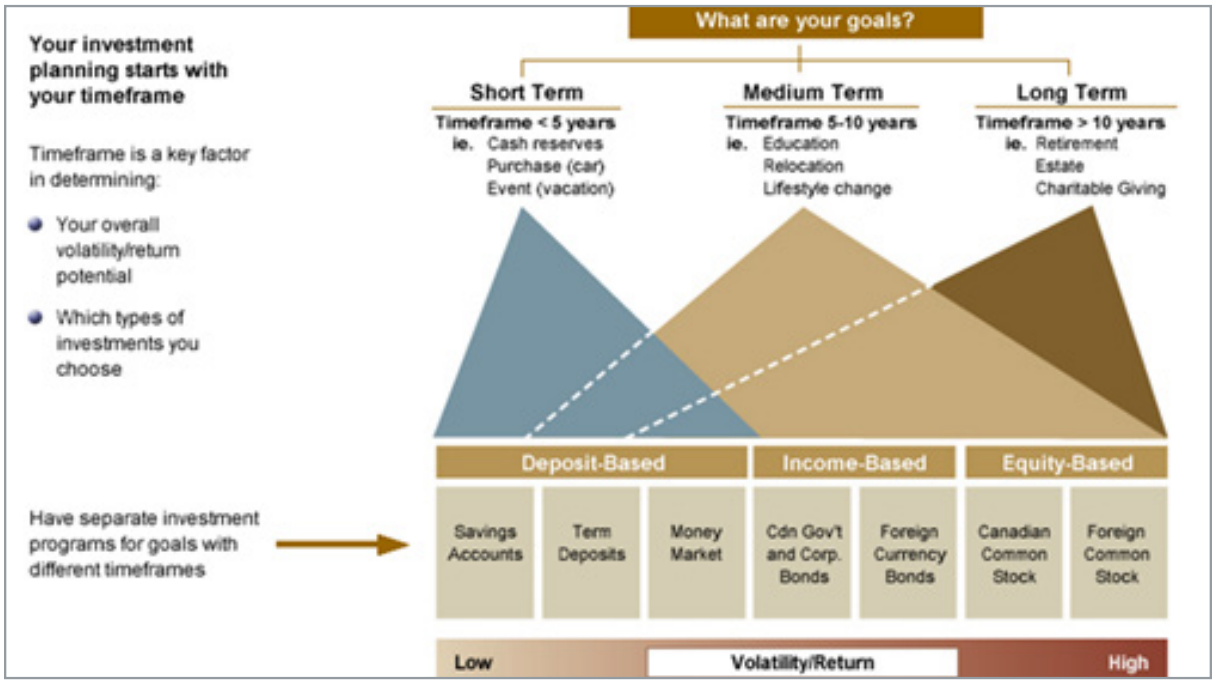
An interesting article came out the other day with the following headline: ***'Investors expecting big returns despite Covid-19 uncertainty' (Investment Executive, August 11, 2020).*** Grabbing our attention was the premise of the article, which is that investors are expecting an average annualized return of 10.9% over the next five years. This was highly alarming to us, as part of our role as financial advisors is to manage portfolio return expectations of our clients. Pre-COVID, I had hosted a webinar on this very subject **('Return Expectations', http://www.colemanwealth.com/video_library.htm, Coleman Wealth Client Webinars, December 11, 2019).**

Even as you're mulling this information over in your head, part of you is thinking, "I would love to see a 10.9% annual rate of return". Trust me – so would we. And our job as advisors is to put you along the right path to achieving the long term rate of return that is appropriate for your age, income needs and risk tolerance.

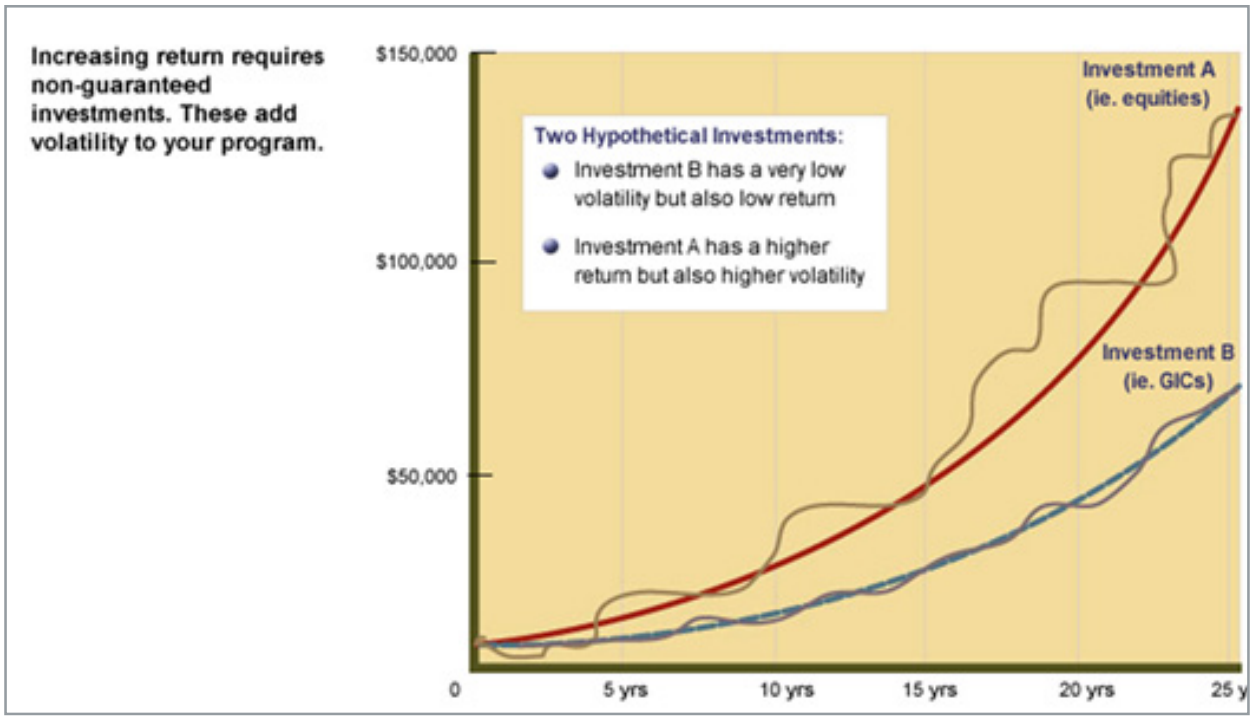
But let's remember what has happened since mid-February. We've had a global pandemic which has slowed the worldwide economy to a halt. This has brought unemployment levels skyrocketing throughout most of the developed world. Interest rates have migrated down to extremely low levels, and monetary stimulus has been pumped into the system at astronomical levels, trying to resuscitate the heartbeat of the economy. Some companies have survived, others, including many small businesses, have not been so lucky. Finally, we are nearing the end of the CERB benefits program in Canada, and in the US, enhanced unemployment benefits will reduce down to $400/week until the end of 2020. The results of how the reduction of government support will affect families over the coming months and years is still unclear, and unknown. It's no wonder that investors are feeling confused as to what to expect! Putting all of these pieces together leads us to a very unclear and unknown future; however, we must continue to manage your portfolios according to the same investment principles as we always do.

But let's return to the subject at hand – return expectations. Let's review a couple of ways that you can look at setting your own personal expectations as to return.

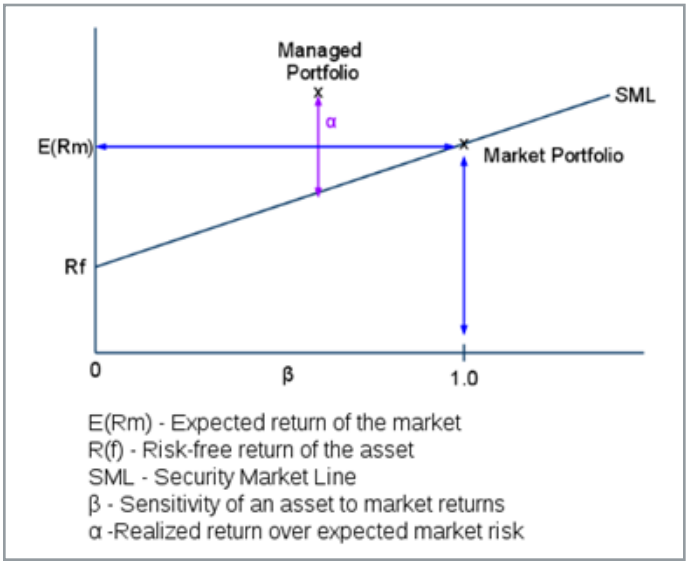
1. **Investment Goals set Timeframe –** what is the timeline for which you're investing? What accounts do you need to draw income from in the next year? Five years? This will allow us to orient your accounts with the appropriate asset allocation for YOUR required withdrawals.



2. **Risk Tolerance sets Return Parameters –** how much bumpiness are you able to stomach? Every investment has a natural rhythm or fluctuation pattern, depending on what it is. For example, you know what to expect with a GIC – safety of principal, with a level of income consistent with where interest rates are. From a stock investment, the underlying value will fluctuate – however, for taking on that risk, we should anticipate long term growth and in some cases, a modest level of income.



3. **Interest Rates affect Rates of Return –** Undoubtedly, where interest rates are will have a direct impact on our return expectations. If you can expect to take no risk with a risk free asset like a government Treasury bill and get 1%, then you should be compensated for taking on more risk with a bond or a stock investment. As interest rates increase, then our return expectations should also increase. This is referred to as the capital asset pricing model (shown below).



A balanced portfolio (combination of 60-70% equities and 30-40% bonds) can expect, on average, to have a rate of return = Rf (1%) + 3-4% (depends on equity and bond weightings)

I covered all of this in the webinar, so I do encourage you to go watch it. As I hope is somewhat obvious, it is not an easy task to understand where your return expectations ought to be. Every investor is unique, and has different portfolio requirements, risk tolerances, savings and withdrawal levels. As part of our planning process, we seek to understand what the long term rate of return for your portfolio OUGHT to be, based on these factors, and how much variability we can expect over the short, medium and long term. As always, please do not hesitate to reach out to any of us to discuss your return expectations and where they ought to be, given today's environment.

Client's Corner

Don't Just Do Something: Stand There

DANIEL KAHNEMAN, THE FIRST-EVER PSYCHOLOGIST TO WIN the Nobel Prize in Economics—yes, you read that right—once said, ***"All of us would be better investors if we just made fewer decisions."***

He was alluding, of course, to our powerfully instinctive drive to change our investments in reaction to some real or imagined "crisis" in the economy and the markets—and these days, in public health ("Virus cases spike!"). The key word in the foregoing sentence is, of course, **"reaction."**

If you're **acting** on your long-term plan to accumulate enough capital to fund a dignified and independent retirement—which essentially just means that you're adding money to your portfolio whenever you can—chances are overwhelmingly good that you're doing the right thing.

Likewise, if you're retired, and you're continuously **acting** on a long-term plan of withdrawing far less than mainstream equities' long-term historic compound return of about 10% annually—again, the odds that you're doing the right thing are very good.

But if (heaven forbid) you **react** to a "crisis"—most recently the now-you-see-it-now-you-don't 33-day COVID bear market of February/March—you may very well end up doing damage to an intelligent long-term plan/portfolio that you won't be able to repair. And as, in the long run, each insoluble "crisis" turns out to be some or another species of blip, you're at risk of regretting your **reaction** for the rest of your life.

That is, I think, the essential message of Dr. Kahneman's dictum. In two words: **don't react**.

Then again, there are many other kinds of unnecessary and ultimately regrettable decisions in investing, one of which isn't **reacting** to a "crisis" at all, ***but anticipating it.*** Quadrennially, this anticipation takes the form of "If so-and-so gets elected/reelected, the economy will go to hell in a handbasket, and the equity market will tank. I will therefore exit my exquisitely crafted equity retirement portfolio, and just wait to see how things turn out." History suggests that whoever wins the election, you'll regret this anticipatory decision sooner than later.

Look: half a year after we were enveloped in the coronavirus crisis—when the economy went into cardiac arrest and the equity market went down by a third and came almost all the way back as quickly—we're all exhausted. With a resurgence of the virus in many states, we're a whole country that doesn't even know when our kids are going to be allowed back in school, and there doesn't appear to be any clarity in sight. That's terribly wearing on all of us. And we start thinking that if we could just secure one less thing to worry about, it might make us feel better.

There are indeed a lot of healthy actions we could take in the month between now and Labor Day that might make us feel better, and help our loved ones feel better. Unfortunately, making big portfolio changes is probably not one of them. Think about all those people who liquidated their equity investments around the very aptly named April Fools' Day. They legitimately wished for one less thing to worry about too. Think they're still feeling better? I don't.

Of course, there is one wonderful exception to the do-nothing rule, and that's if you're holding significant amounts of cash which are intended for long-term equity investment "when things settle down." The longer your investing time horizon—a two-person, three-decade retirement, for example—the more you may want to rethink this. One notes the following:

- We're a very long way from being out of the woods regarding the pandemic, but the catastrophic toll it took on the elderly infirm—and the way that situation was made worse at first by crowding those patients into nursing homes—seems unlikely to be repeated. Treatments are improving; progress toward a vaccine—indeed, possibly a number of vaccines—appears to be moving rapidly.
- The second quarter of 2020 almost certainly saw the largest quarterly contraction in GDP, and the biggest drop in corporate earnings, since the Great Depression, if not ever. But since then many key economic indicators—perhaps most notably retail sales—have turned sharply positive.
- And the equity market is holding or even adding to the gains it made in the S&P 500's best 50 days ever, coming off the panic low of March 23—four months and more ago.

These three trends may yet turn out to be false positives. But if they don't—that is, if they continue and even gather momentum—the opportunity cost of holding cash may be rising. This is ***the*** conversation I'd urge you to have with your financial advisor this month.

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