The Dream Achiever

DD HUMES

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"Now this is not the end. It is not even the beginning of the end. But it is, perhaps, the end of the beginning."

~Winston Churchill

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Importance of staying active
With many activities getting locked down again, I cannot stress enough how important it is to stay active for both your physical and mental health. Before Covid-19, my daily routine had always tried to include a morning visit to the gym. When the gyms got shut down, I bought a road bike and have made biking part of my life this summer. It has gotten me outdoors for 4000 KMs, taken me to parts of town that I had never been, increased my fitness, and has allowed me to meet many fantastic new people. Take this opportunity to try something new to stay active, you might love what it gives back to you! ~ Matt

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Climbing over the wall of worry

It has now been more than six months since the World Health Organization declared the global COVID-19 pandemic, drastically changing our home and working lives. As the initial wave of infections subsided and the spread of the virus stabilized through the summer months in most parts of Canada, we have adapted to the "new normal." Heading into the fall, infection rates in some provinces are rising again, raising the possibility of further restrictions to limit the spread of the virus. Amidst the ongoing uncertainty, we hope that you and your family are keeping well.

Recovering from the pandemic-related downdraft of the first quarter, financial markets enjoyed a period of relative calm and optimism through the summer of 2020. Equity prices in most markets have continued to improve, with some sectors moving sharply higher as lockdown restrictions eased and economic activity gradually resumed. Despite the up markets of Wall Street, there is little solace on Main Street. Many businesses, especially in the service industry, have been challenged. Frustrations have mounted and are on full display on the daily news. Gun sales and price of gold reached record highs during the quarter, signs that there is fragility under the surface of this market and economic recovery. Toward the end of the third quarter investor concerns resurfaced. Markets were rattled by growth in the numbers of COVID-19 infections (including Mr. Trump), uncertainty related to the upcoming U.S. presidential election, and the expected economic stress of reductions in government supports for businesses and individuals.

Most global equity markets started the quarter positively, led largely by investor optimism for a narrow group of sectors expected to benefit from current conditions, such as technology and health care. The S&P 500 Index, a broad representation of the U.S. equity market, reached an all-time high in early September before volatility resurfaced as the quarter drew to a close. The U.S. index finished the three-month period up 6.6% for the quarter and 8.4% for the year-to-date in Canadian dollar terms. The MSCI World Index, which reflects returns for developed equity markets around the globe, followed a similar path, and was up 5.7% for the quarter and 4.9% for the year-to-date.

In Canada, the S&P/TSX Composite Index also trended higher through much of the summer, buoyed by sectors such as materials (precious metals), industrials (transportation companies) and consumer staples. Despite continued weakness in the energy sector and broader market volatility later in the quarter, the Canadian benchmark finished three-month period with a gain of 4.7% but remained down 3.1% for the year-to-date.

Central banks around the world continued to gauge the ongoing economic impact of the pandemic in setting monetary policy. The U.S. Federal Reserve, for example, noted that the U.S. economy had picked up considerably, but much depends on the confidence of consumers to spend. The central bank also indicated that it would allow inflation to exceed 2% as the economy recovers and that its target interest rate would be left unchanged at 0-0.25% for "an extended period" as it would shift focus to long-run average inflation targeting. The Bank of Canada also kept its benchmark interest rate steady during the third quarter at 0.25% and said it would continue its large-scale government bond purchase program designed to promote liquidity in the financial system. The decline in interest rates has supported bond prices over the past several quarters, resulting in the FTSE Canada Universe Bond Index, a broad measure of Canadian government and corporate bonds, to return 0.4% for the quarter and 8% for the year-to-date. With the current low yields the long-term return profile of investment grade bonds remains weak.

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Market Overview Continued

So far, 2020 has reminded us of several important lessons, one of which is that timing the market is nearly impossible. Many people would have sold their investments shortly after the U.S. market declined nearly 34% in March, believing that a recovery would be a long way off. But from its lowest point on March 23, the S&P 500 took just 140 days to recover – the fastest rebound on record. Those who stayed invested would likely have been rewarded for their patience, while those who sold would have locked in losses. Market sentiment swiftly shifted from a broad panic sell to a fear of missing out.

Looking ahead, the COVID-19 pandemic is far from over and will likely have an impact on investment markets for many months to come. Governments and central banks continue to provide support for the economy through accommodative fiscal and monetary policies, but the economic outlook remains cloudy, particularly if further restrictions to limit the spread of the virus become necessary. For this reason alone, keeping a long-term view will be especially important. If you have any short term cash flow needs or retirement payments coming please be sure that your "Cash Wedge" has been topped up. Should you have any questions regarding your portfolio, please do not hesitate to contact our office.

Planning items

- **RRSP Contribution Room for 2020:** Please provide us your contribution room for the 2020 tax year off of your 2019 Federal Notice of Assessment. The maximum limit for 2020 is $27,230. You may need to adjust your automatic savings plans for the coming year accordingly.
- **Registered Education Savings plan (RESP) contributions:** Quebec beneficiaries get the added 10% QESI grant from the provincial government increasing the overall grant to 30%!
- **Tax Free Savings Account (TFSA):** $6000 of room has been available since January 1, 2020. Total room since 2009 is $69,500.
- **Conversion to RRIF account:** Those of you who turn 71 years of age in 2020 (born in 1949) will need to convert your RRSPs into RRIF accounts before the end of the year. All of these clients should have been contacted by now.
- **Your Annual Review:** It is important to inform us of any changes taking place in to see the effects on your plan.
- **$2K pension deduction:** Those who turn age 65 or older in 2020 and not already receiving recognized pension income.

The Planning Corner: 2020 year-end tax planning ideas

As we head into the final quarter of the calendar year I thought I'd focus on some year-end tax planning topics that could be of interest. **Tax-loss selling**: Selling off investments with accrued losses at year end to offset capital gains realized elsewhere. Net capital losses that cannot be used in the current year can be carried back 3 years or carried forward indefinitely to offset net capital gains in other years. Note that you need to be aware of the **superficial loss rule** where if you sell a security at a loss and then buy it back within 30 days the capital loss will be denied and the benefit will only be obtained when the repurchased security is ultimately sold.

Clients who turn 71 in 2020 have until December 31 to **make a final RRSP contribution** before converting their RRSPs to RRIFs. If you have a spouse born in a later year you still have access to RRSP deductions by adding to a Spousal RRSP in your spouse's name.

You still can make 2020 contributions towards **RDSPs** and **RESPs** before the calendar year end and receive the associated grants. On the flipside you should be making **RESP withdrawals** in a tax efficient manner for children in post-secondary school with little to no income.

If you need to **withdraw from a TFSA** early in 2021 you should do so before the year-end as you will **recapture your TFSA contribution room** on January 1, 2021. If you were to wait until the new-year to withdraw you will not get the TFSA room back till Jan 1, 2022.

Any **charitable donations for the 2020** must be made before Dec 31. One of the best ways to make donations is through gifts of appreciated securities such as stocks, mutual funds and segregated funds because if you donate them to charity you get a receipt for fair market value and you pay no tax whatsoever on the accrued gain.

Another topic of interest could be small business passive investment income rules which came into effect last year. Income in the corporation between $50,000 and $150,000 reduces the Small Business Deduction down to zero. You should strategically realize gains and losses in those investments to manage the income that you would declare.