

INVESTMENT FOCUS

We have ideas.

WINTER 2022

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To My Clients:

May the turning of the calendar bring bright days ahead. Continue to look forward and keep building your wealth for tomorrow. Despite the near-term uncertainties, I remain optimistic for the future and for longer-term growth prospects.

I would like to take this opportunity to send my appreciation for your confidence in my services during this period of adjustment. Wishing you and your loved ones good health, happiness and hope for the coming year.

– Kairas

The Enduring Human Spirit

An article published by the *Wall Street Journal* shared some fitting advice from endurance athletes, suggesting that those who endure adversity can emerge stronger and more resilient in what is termed “post-traumatic growth.”¹ Over the past 20 months, we’ve each had to endure adversity in our own ways; the pandemic has forced many of us to confront uncomfortable and tragic situations. However, as we enter another year, the hope is that we will be able to move forward, perhaps a little bit more resilient than before.

These hard-earned lessons in endurance may also help guide us through the investing journey. Some observers have pointed to the current outlook for the financial markets as being uncertain: highly indebted governments globally, ongoing supply chain issues, persistent inflation and imminent rate increases are just some of the recent themes to dominate the financial headlines. Without a clear path forward, these can raise worry and can drive short-term market behaviour.

However, uncertainties will always be with us and, often, the near-term path may not easily be predicted. One such example is the price of oil. Do you remember last year’s outlook? A year ago, few would have suggested that prices would appreciate by over 60 percent within the year.² Just eight months prior, when futures prices fell to negative for the first time in history,³ one energy analyst dejectedly proclaimed: “I’m really not optimistic about the prospects for oil companies or prices.”⁴

We should also never underestimate the endurance of companies, economies and the markets. The impressive performance seen this past earnings season is just one such example. Many corporations have continued to adapt to the challenges — economic shutdowns, labour shortages, supply chain issues and rising input costs — to report continued earnings strength, some with record levels of profitability.

Indeed, the human condition is one characterized by perseverance, advancement and growth. Market strategist Ed Yardeni recently published a series of data that shows how the world has generated unimaginable wealth since the 1940s.⁵ Of particular interest is the tremendous growth in corporate profits — an upward trajectory over time, regardless of many short-term happenings. Even during the global financial crisis of 2008-09 when the U.S. financial industry suffered significant losses, while there was a notable deviation, this quickly reverted.

Last year’s equity market performance should remind us that sitting on the sidelines is not a prescription for growth. If we are to prepare for the financial future we want, we must continue to participate. As we look to 2022, let’s expect the best, knowing that we have a plan in place to guide the investing journey. Here’s to much health, hope and prosperity for the year ahead.

1. “Hard Earned Lessons in Endurance,” Bonds Bernstein, Wall Street Journal, May 5, 2021; 2. At time of writing, WTI crude oil spot price 11/25/21 = \$78.31, 1/4/21 = \$48.52. At its high, 10/26/21 = \$84.65; 3. May 2020 WTI oil futures, at 4/20/20; 4. www.bbc.com/news/business-52350082; 5. www.yardeni.com/pub/sp500marginipa.pdf

In this issue

- Resolve to Review Your Estate Plan
- Avoid These Five RRSP Pitfalls
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Avoid These Five RRSP Pitfalls

It is Registered Retirement Savings Plan (RRSP) season once again! Beyond the importance of contributing to the RRSP to grow funds for retirement, avoiding certain practices can also help to save tax or create a bigger nest egg for the future.

Withdrawing Funds to Pay Down Debt — Consider the implications of making taxable withdrawals from the RRSP to pay down short-term debt. You may be paying more tax on the RRSP withdrawal than you'll save in interest costs. In addition, once you make a withdrawal from the RRSP, you won't be able to get back the valuable contribution room — unlike the TFSA, where contribution room resets itself in the following calendar year.

Contributing Losers In-Kind — In order to fund the RRSP, some investors may choose to move investments from non-registered accounts. If you are considering making in-kind contributions to the RRSP, be careful not to transfer investments that have declined in value. You will be deemed to have sold these investments at fair market value when transferring them to the RRSP, yet any capital loss will be denied. Instead, consider selling them on the open market and contribute cash to the RRSP so you can claim the capital loss (and be aware of the superficial loss rules if you plan on repurchasing them).

Claiming the Deduction in the Wrong Year — With any RRSP contribution, you're entitled to a tax deduction for the amount contributed so long as it is within the contribution limit. Keep in mind that you don't have to claim the tax deduction in the year that the RRSP contribution is made. You may carry it forward if you expect income to be higher in future years such that you may be put in a higher tax bracket, potentially generating greater tax savings for a future year.

Neglecting to Update Beneficiary Designations — It may be beneficial to review account beneficiaries on a periodic basis, especially in light of major life changes. For example, in the event

of separation or divorce, be aware that named beneficiaries may not be revoked, depending on provincial laws. Therefore, the designation of an ex-spouse may still be in effect.



Withdrawing from a Spousal

RRSP — For couples in which one spouse will earn a high level of income in retirement while the other may have little retirement income, a spousal RRSP can potentially be a valuable income-splitting tool. However, don't forget that the attribution rules generally apply to a spousal RRSP. If the higher-income spouse has made contributions to the spousal RRSP in the year or in the immediate two preceding years and if funds are withdrawn from the plan, they may be taxed to the higher-income spouse, as opposed to the lower-income spousal RRSP owner.

RRSP Season Reminders

Contribute — The deadline for RRSP contributions for the 2021 tax year is **Tuesday March 1, 2022**. Contributions are limited to 18 percent of the previous year's earned income, to a maximum of \$27,830 for the 2021 tax year. Consider an automatic monthly contribution plan to avoid missing the deadline.

Consolidate — If you hold multiple RRSP accounts at different financial institutions, consider consolidating for improved administration, convenience and potential cost savings.

Collapse — If you are turning 71 years old in 2022, please get in touch to discuss options for closing your RRSP by year end.

Looking Forward: Keep Time on Your Side

"Greatness is not in where we stand, but in what direction we are moving. We must sail sometimes with the wind, and sometimes against it — but sail we must, and not drift, nor lie at anchor."

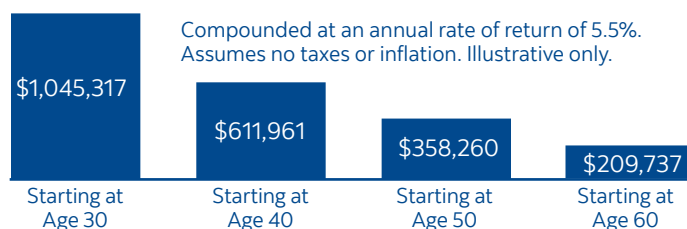
— Oliver Wendell Holmes

Being invested can be one of the best ways to grow wealth over the longer term. Yet, after an extended period of gains, some investors may feel hesitant to put money to work in equity markets. While volatility was muted for most of 2021, let's not forget that it is a normal part of equity markets. It is the price paid for the upside potential.

Remember that time can be one of the investor's best allies. If you have (grand)children learning about finances, the accompanying chart may be a worthwhile share. Even with modest returns, starting early and staying invested can yield significant wealth down the road. How about you? Do you have funds sitting idle that can be put to work for your future? The best investment opportunity is valueless unless we actually make use of it. Keep time on your side!

How Much Could You Have by Age 85?

The Impact of Investing a Lump Sum of \$55,000 at Various Ages



Source: Based on \$55,000 invested at a 5.5% compounded annual rate, for 55, 45, 35, and 25 years, respectively.

2022 TFSA Contribution Limit

The 2022 TFSA dollar limit is \$6,000. This brings the total lifetime contribution limit to \$81,500 for those eligible. Do you have unused contribution room?

Outlook 2022: Reasons for Continued Optimism

The year 2021 will likely go down in the record books as an impressive one for equity markets. As such, some are asking if further upside can be had as we look ahead to 2022. While predicting the near-term direction of the markets is never possible, there may be reasons to support a continued upward climb:

Still room for growth! Let's not forget that in 2021, Canada's economy struggled through recovery mode. Our economy remained shut down much longer than the U.S., and recent growth has been hindered by factors including supply chain bottlenecks, labour supply issues and continuing pressures as a result of the Delta variant. These are expected to normalize as full economic recovery takes course. For instance, labour issues may have been exacerbated by generous pandemic stimulus cheques; workers are likely to head back as this support runs out. Building upon this economic recovery, the potential for expansive fiscal measures in the U.S., including President Biden's ambitious infrastructure plan, have the potential to support continued growth.

An accommodative Federal Reserve. Many central banks have been highly accommodative and have expressed patience with their policies. While many have indicated that increasing rates are on the horizon, we suggest that rates are not likely to rapidly rise. Monetary policy is likely to play an ongoing role as nations grapple with higher debt-to-GDP ratios as a result of pandemic stimulus — they still need to service this debt, and with higher interest rates, the cost of carrying this debt becomes larger. Markets are also forward-looking in nature and expectations for rate increases in 2022 have been largely priced in. It may also be worth remembering that the timing is still uncertain: when the Fed started to taper in 2013 after the financial crisis, investors expected the first rate increase within the year, about a full year before it actually happened.¹

Significant cash on the sidelines. Many companies built substantial cash reserves for insurance throughout the pandemic; by some estimates, the largest non-financial companies have a record \$7 trillion of cash on their balance sheets.² Given continued strength in earnings, these companies may look to unwind their

reserves to fund projects and investments to drive growth. Similarly, households are sitting on record amounts of cash, which may

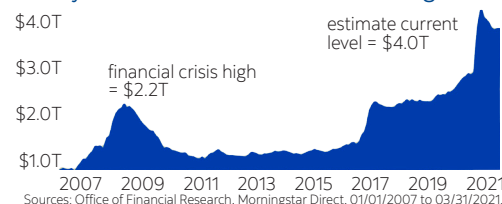
suggest that consumer spending will be unleashed as supply constraints are resolved.³ The amount of assets in money market funds also remains at highs, suggesting potential for this to be injected into higher-return equity markets.

Inflation: deflate your concerns. While many pandemic-related headwinds that have pushed inflation higher are expected to moderate in 2022, even if more persistent inflation is here to stay longer, there is no clear risk to equity markets. History suggests that there isn't a distinct pattern between high inflation and equity market returns. As one market analyst recently suggested: "deflate your inflation concerns!"⁴ It should also be noted that staying invested in the equity markets is one of the best inflation hedges, as history shows that stocks beat inflation over the long term.

There are, no doubt, many challenges ahead, but their eventual outcomes on the markets are often difficult to predict. Don't let them stop you from staying the course. Look forward with confidence!

1. www.wsj.com/articles/narrowing-yield-gap-in-treasuries-signals-worries-over-fed-growth-11635586201; 2. www.cnn.com/2021/08/17/investing/cash-companies-balance-sheet/index.html; 3. www.wsj.com/amp/articles/americas-cash-might-stay-on-the-sidelines-11632423163; 4. www.wsj.com/articles/deflating-your-inflation-investing-fears-11635519805

Significant Cash On the Sidelines Money Market Funds Assets Under Management



Stock Market Returns During High Inflation Years

Inflation	S&P 500 Returns	Year	Inflation	S&P 500 Returns	Year
14.4%	5.2%	1947	8.5%	-8.4%	1946
13.6%	31.7%	1980	7.9%	23.7%	1951
11.3%	18.5%	1979	7.7%	5.7%	1948
11.1%	-25.9%	1974	7.6%	6.5%	1978
10.9%	19.2%	1942	6.5%	-7.0%	1977
10.3%	-4.7%	1981	6.2%	-14.3%	1973
9.1%	37.0%	1975	6.1%	20.4%	1982

Source: awealthofcommonsense.com/2021/10/inflation-vs-stock-market-returns/

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