INVESTMENT FOCUS

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RCWM Robert Chick Wealth Management

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In this issue

Delayed Landings

We find ourselves in a period where sentiment could be aptly described by Charles Dickens' classic line: *"It was the best of times, it was the worst of times..."* Today's narratives are seemingly contrasting. On one side, we are living in an era of unprecedented technological advancements and some of the highest standards of living in history, marked by improved quality of life, increasing wealth positions and one of the highest life expectancies. On the other, however, rising living costs, heavy debt burdens, sluggish productivity and ongoing geopolitical tensions are casting shadows over this progress. Economically, we find ourselves in a transition, with an economy that's neither great nor terrible.

Some have termed it a "delayed landing," with the markets unusually quiet in the first half of 2024 as we lingered in this middle ground. Since the start of the year, market observers have been closely watching central bank monetary policy decisions as economies averted a hard landing. Let's not forget that the multiple rate cuts anticipated at the start of the year did not largely materialize as economies, especially the U.S., performed better than expected. Over the summer, the S&P 500 made headlines for going 377 days without a selloff greater than two percent — the longest stretch since the financial crisis. The CBOE Volatility Index (VIX) fell to its lowest levels not seen since November 2020.

This period of calm was abruptly interrupted when the Bank of Japan surprised the markets with a rate hike at the end of July. While central banks globally were raising rates to fight inflation in 2022 and 2023, Japan had been the exception. As a result, the Japanese yen became the currency of choice for "carry-trade investors," who borrowed low-interest-rate yen to invest in assets denominated in higher-interest-rate currencies. At the end of these trades, investors converted funds back into yen to repay the loans, in a leveraged strategy known for its considerable risks. Indeed, the yen's rapid appreciation in August, prompted by the rate hike and other factors, led to significant losses in these carry positions, prompting the Nikkei to experience its worst day since Black Monday in October 1987. North American markets jittered, and the VIX spiked to its third-highest level in its history.

A Note of Thanks

During this Thanksgiving season, I am reminded of the many things to be thankful for: we live in a nation of peace, prosperity, inclusivity and resilience. I am grateful to you, my clients, for entrusting me to be a steward of your wealth.

If you have family, friends or colleagues who could benefit from my experience, support and advice, I continue to welcome new clients and appreciate any introductions.

Yet, seasoned investors accept that volatility is an inherent part of the markets. A look back at the S&P/TSX Composite since 1985 reminds us just how common volatility is:

- A 5 percent drawdown is almost guaranteed each year, occurring 95 percent of the time;
- Double-digit drawdowns of more than 10 percent have happened 56 percent of the time;
- Despite positive annual returns over 70 percent of the time, the average intra-year drawdown has been -15 percent. The market declines even when it rises (see page 3).

Periods of volatility should always be anticipated. In these times, it is important not to let short-term fluctuations disrupt long-term financial plans. One of the most challenging aspects of investing is resisting the temptation to follow the herd. Consider the merits of having a solid investment plan — and sticking to it.

Manulife Wealth

Tapping the Registered Education Savings Plan (RESP)

Do you have a child headed to college or university? Congratulations! Now is the time to tap into the fruits of your labour: the RESP.

Not All RESP Withdrawals Are Equal: Plan Your Withdrawal

It's important to distinguish between the types of RESP withdrawals for educational purposes. A post-secondary education (PSE) withdrawal consists of funds originally contributed to the plan. These are not taxable. An educational assistance payment (EAP) is the withdrawal of income, capital gains and grants that have accumulated in the plan. This is taxable in the hands of the beneficiary.

Since EAPs are taxable, one consideration may be to spread them out over several years to reduce the tax bill. This is because the student can take advantage of tax credits to offset EAP income. The basic personal amount for the 2024 tax year is $15,705. Assuming a federal tuition credit of $7,360, the federal tax credit would total $23,065, so a student with no other income could potentially receive $23,065 of EAPs in 2024 and pay no tax. Remember: the basic personal amount is a non-refundable tax credit, so it cannot be transferred to future years. The tuition credit, however, can be carried forward.

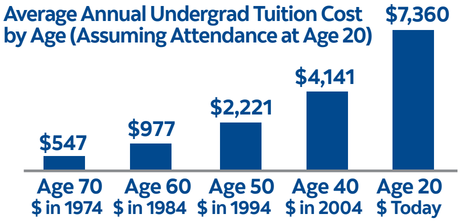
It may be beneficial to withdraw EAPs when the student has a low income. If the student has other income, such as from scholarships or a part-time job, this alongside a larger EAP withdrawal could put them in a higher marginal tax bracket. While waiting to make a future EAP withdrawal may benefit from additional tax-sheltered growth in the plan, if the student drops out of school, there may be tax implications to you as the "subscriber." Remaining income/grant money may be taxable and an additional 20 percent penalty tax may apply.

Haven't Accessed the RESP? Plan Ahead

If you haven't yet accessed the RESP, plan ahead as the process can take time. You'll need a proof-of-enrolment form completed by the post-secondary institution. This can usually be requested online and many schools email an electronic version to the student within a couple of business days. You must also complete the RESP withdrawal form, specifying the type of withdrawal (EAP or PSE) and where you wish the funds to go. If you need to understand the amount of income/grants received, please call. If you are requesting an EAP, keep in mind that there is a limit of $8,000 for the first 13 weeks of enrolment for full-time programs. Also, consider that the settlement process for selling securities can take time.

The Increasing Cost of Higher Education

Average Annual Undergrad Tuition Cost by Age (Assuming Attendance at Age 20)



Source: Statistics Canada Table: 37-10-0150-01.

A Dozen Financial Tips for Students From Those Who Went Through It

An article in the popular press asked readers to share financial advice for students heading back to school. Here are some tips, many of which may apply to our own financial well-being in adulthood:

1. **Track your finances. Save and subsist!**
2. **Consider a small part-time job and start a habit of saving $25 each week.**
3. **Create a budget and stick to it.**
4. **Wait a day to buy it.**
5. **No loans for expenses.**
6. **Learn assets and liabilities.**
7. **Treat credit like cash.**
8. **Build your credit score.**
9. **Budget for a broken heart; it's cheaper than a failed semester!**
10. **Resist peer pressure.**
11. **Master compound interest.**
12. **Don't forget to HAVE FUN!**

Source: "25 Financial Tips for College Students," D. Gallego, Wall Street Journal, 8/17/23.

Acting as Estate Executor? Beware of Your Actions

It may seem like an innocuous act of kindness by the executor, yet paying estate expenses out of pocket can lead to consequences if the estate is considered a graduated-rate estate (GRE).

First: A Brief Background on the GRE

A GRE is a valuable estate planning tool due to its tax benefits. Before 2016, Canadians could establish testamentary trusts in their wills to hold assets, with income taxed at the same graduated rates as an individual. As of 2016, testamentary trusts established at death became subject to tax at the highest tax rate, with the exception of a GRE that is taxed at graduated tax rates for up to 36 months from the date of death. The GRE allows the estate to save taxes, thus increasing the inheritance to be received by a beneficiary and potentially providing opportunities to claim donation tax credits and implement post-mortem tax planning for private corporations.

In general, to qualify, the estate must designate itself as a GRE on the first year's tax return. No other estate of the individual can be designated as a GRE. The estate must use the deceased's social insurance number on each tax return during the 36-month period following death. While these GRE-qualifying rules are commonly understood, estate planning specialists warn that many executors may not be fully aware of how easily the GRE status can be tainted.

GRE Status & Executor Actions

How can executor actions jeopardize the GRE status? In many instances, family members who are also estate beneficiaries may be appointed as executors. They may decide to pay certain estate expenses out of their own pockets, such as funeral costs, tax on estate assets or maintenance of the deceased's home. This may be done out of kindness or convenience, to speed up the estate settlement process or because an estate doesn't have liquid assets. Since they are the estate beneficiary, they may feel indifferent about incurring the expense personally. Yet, in doing so, these actions would be considered a "contribution" to the estate, which would cause the estate to lose its testamentary trust status and, ultimately, the valuable GRE status.

Other circumstances may put the GRE status in jeopardy, including if the estate borrows money from a beneficiary and fails to fully repay it within a year. These examples highlight the potential consequences of certain actions that executors may not be aware of.

As you review your estate plan or to learn more about the GRE and the role of the executor, please consult an estate planning specialist.

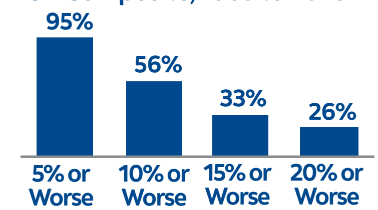
A Reminder: Volatility, No Stranger to the Markets

After a relatively quiet first half of 2024, let's not forget that volatility is an inherent part of the equity markets. It's common to see declines of at least 5 percent almost every year, with corrections of 10 percent or more occurring in 56 percent of years and drops of 15 percent or more happening roughly one-third of the time (see graph, right).

Even in years when the S&P/TSX Composite Index has performed strongly, there are often significant intra-year declines (see graph below). Since 2005, the average intra-year drawdown has been -15 percent, despite the S&P/TSX delivering an average annual return of around 6 percent.

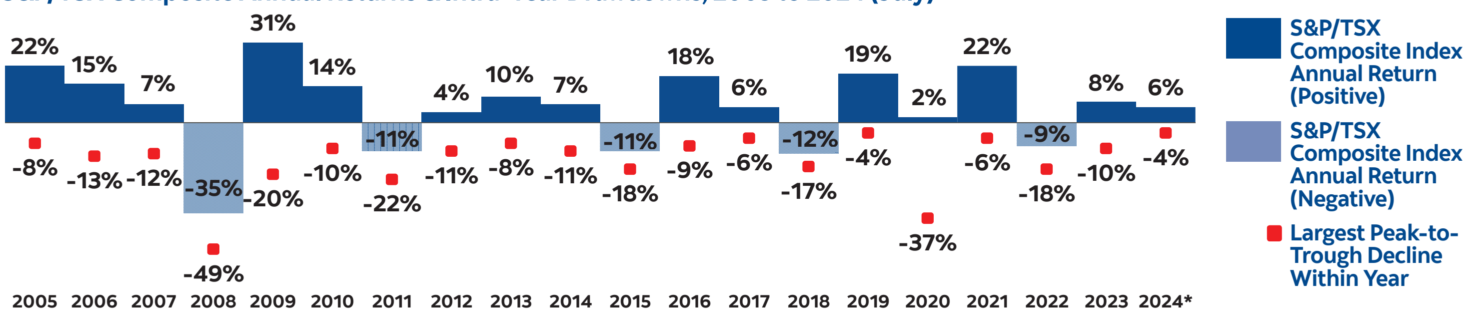
Successful investing involves preparing for both the inevitable ups and downs that come with market volatility. While it's never easy to see portfolio values decline during periods of temporary volatility, it's important to maintain patience and perspective to see these periods through.

% of Years with Drawdowns, S&P/TSX Composite, 1985 to 2023



Source: S&P/TSX Composite Index, 1/1/1985 to 12/31/2023.

S&P/TSX Composite Annual Returns & Intra-Year Drawdowns, 2005 to 2024 (July)



Source: S&P/TSX Composite Index 1/1/2005 to 7/31/2024. *2024 represents data for the partial year to 7/31/2024.

FHSA Carryforward Rules — Not All Registered Plans Are the Same

If you've opened a First Home Savings Account (FHSA), be aware that the carryforward rules differ from those of other registered accounts.

When the FHSA is opened, the account holder is able to contribute $8,000 in annual participation room. Any unused amounts can be carried forward to the following year, but only to a maximum of $8,000 and subject to a lifetime limit of $40,000. This differs from the Tax-Free Savings Account (TFSA) and Registered Retirement Savings Plan (RRSP) where unused contribution room is carried forward indefinitely (or until age 71 for the RRSP) — there is no limit.

For example, consider an individual who opened the FHSA in 2023 and contributed $4,000. In 2024, the FHSA would have $12,000 in participation room — $8,000 of new room for 2024 and $4,000 carried forward from 2023. However, if the individual doesn't contribute in 2024, they would have $16,000 — not $20,000 — of participation room in 2025, as only $8,000 carries forward from 2024.

Why Is This Important?

Similar to other registered accounts, the CRA applies a penalty of one percent per month on excess FHSA contributions. In the example above, a $4,000 over-contribution would result in a penalty of $40 per month or $480 per year, which is not insignificant. Additionally, since the FHSA generally closes at the end of the year of its 15th anniversary, or the year after the first qualifying withdrawal, if you don't contribute the full $8,000 each year, you may run out of time to contribute the lifetime maximum of $40,000 and miss out on the full tax-deductible opportunity. By not maximizing contributions from the outset, you might also forgo the opportunity for tax-free growth — contributing $8,000 in each of the first five years from the plan's inception allows for the greatest potential tax-free growth when it comes to timing.

Here are additional tips to consider before year end for other registered accounts:

RESP — While there is no annual contribution limit (the lifetime limit is $50,000 per beneficiary), there are carryforward limits for the Canada Education Savings Grants (CESGs), which offer a 20 percent matching grant on contributions of up to $2,500 each year for a grant maximum of $500. If there is unused grant room from a previous year, this can be carried forward to a maximum grant of $1,000 per year. So if you haven't made contributions in a prior year, the CESG limit can be achieved with an annual RESP contribution of $5,000.

TFSA — Remember that contribution room resets itself at the start of every calendar year. So, if you need to access funds from your TFSA, consider withdrawing before year end. If you wait and withdraw funds after January 1, 2025, this amount will only be added back to your available contribution room on January 1, 2026.

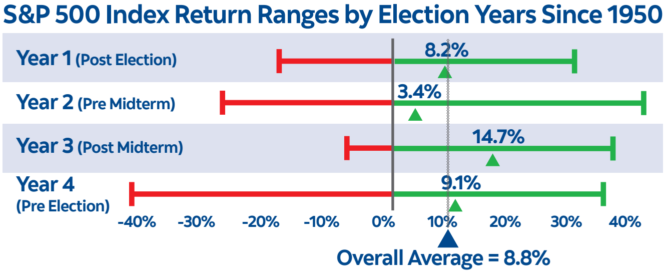
RRSP — Don't forget that both unused RRSP contribution room and unused RRSP deductions can be carried forward. While making RRSP contributions as early as possible allows for tax-deferred growth, deferring the deduction may provide tax-planning opportunities. For instance, if you make a contribution, you can choose to delay the RRSP deduction to a future year, perhaps one in which you will have a relatively higher income, to offset the higher potential tax.

U.S. Election Fever: Investing Perspectives

U.S. presidential election fever is in full force! Election years are often fuelled by uncertainty about future policies, regulatory shifts and their potential impact on economies — and this year's U.S. election has been no exception. While public policy can indeed influence specific industries, sectors and even the broader economic and social climate, the actual impact of the election may have less significance to the markets than many investors might expect. Here are three perspectives to consider:

1. Election year returns are similar to non-election years. Historical data shows that, since 1850, the annual compound return for a balanced 60/40 stock/bond portfolio invested in U.S. markets is similar in both election and non-election years. Election years (41 periods) have returned an average annual return of 8.7 percent, compared to 7.7 percent in non-election years (122 periods).[1] Similarly, since 1950, the S&P 500 Index has averaged a return of 9.1 percent in an election year ("Year 4," chart below), not significantly differing

S&P 500 Index Return Ranges by Election Years Since 1950



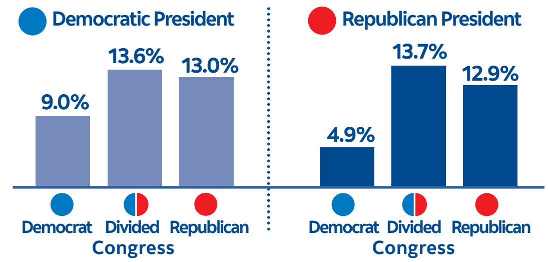
https://www.fidelity.com/learning-center/trading-investing/election-market-impact

from the overall average of 8.8 percent. Interestingly, the 12 months preceding an election have exhibited the widest range of market outcomes compared to other times in an election cycle.

2. Markets are non-partisan. A common misconception is that one political party is better for market returns. However, historical data does not support this theory (chart, top). The S&P 500 has historically averaged positive returns under every partisan combination.

Moreover, stronger market returns have been correlated with a divided government; some suggest that government gridlock may create less policy uncertainty.

Avg. Annual S&P 500 Returns Based on Party Control, 1933 - 2022



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3. There are few consistent outcomes for sector returns in election years.[2] While many investors are watching carefully to see how potential policy changes may impact the markets, sectors or even a company's performance, consider that making changes to an investment strategy at this point comes with risks. Campaign promises do not always result in policy changes. Consider also that the success of policies depends on a variety of factors, including the composition of Congress or the Senate, economic and social conditions and many others.

The bottom line? Presidential election years often generate significant headlines, sometimes causing market volatility or tempting investors to adjust their investing programs. Yet, it's important to distinguish between short-term noise and longer-term outcomes. As these perspectives highlight, the actual impact of an election may have less significance to the markets than many investors assume. Perhaps this is good food for thought for those of us nervously watching the outcome this November!

1. https://investor.vanguard.com/investor-resources-education/article/presidential-elections-matter-but-not-so-much-when-it-comes-to-your-investments; 2. https://fidelity.com/learning-center/trading-investing/election-market-impact

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