Wealth Management
& Capital Markets Perspective

Wealth Management
Dominion Securities

For the clients of Grimes Handscomb Asset Management of RBC Dominion Securities | Spring 2020

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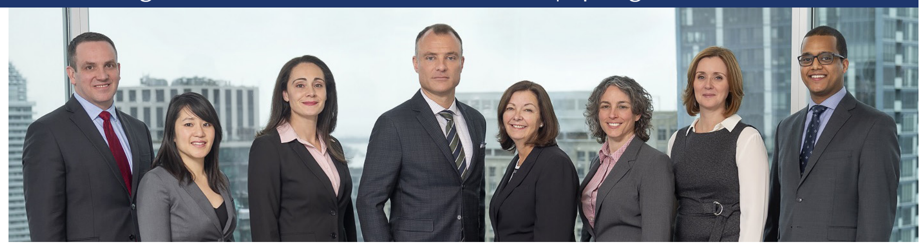


The bulls & the bears

By RBC Global Asset Management

As an investor, it's natural to feel uncertain from time to time. This is especially true when markets are reacting sharply to changing economic conditions. In recent weeks, we've certainly experienced this, as COVID-19 continues to impact global economies, financial markets and our daily lives in a way that was once thought of as unimaginable. During these periods of time, it can be helpful to reflect on the past as a means to help frame the eventual path forward.

Setting the stage

In the world of investing, the terms bear market and bull market are frequently cited. However, there is some debate over the precise definition of each term.

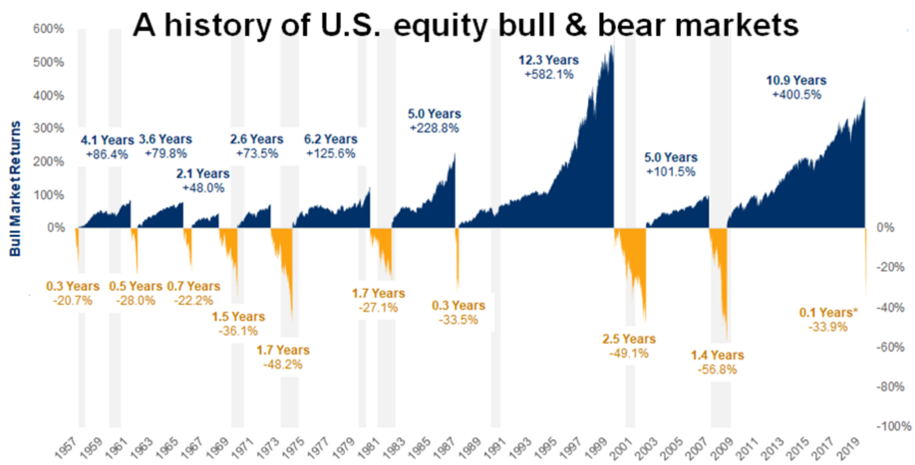
- **Bear market:** occurs when an index or asset drops 20% or more, encompassing the period of time from market peak to market trough.
- **Bull market:** can be thought of as all periods between the bears, from market trough to market peak.

Using these definitions, U.S. equities officially earned their bear market label on March 12 when the S&P 500 closed down over 20% from the all-time high it set just 22 days before.

This decline marked the end of the bull market, which began at the depths of the global financial crisis on March 9, 2009.

We've been here before

Despite the uneasy feelings associated with any pullback in financial markets, it can be reassuring for investors to know that these are not uncharted waters. In fact, there were 10 distinct bear market events if you look at U.S. equity markets spanning the past 70 years. This suggests that on average, long-term investors should expect to encounter a bear market roughly once every seven years.



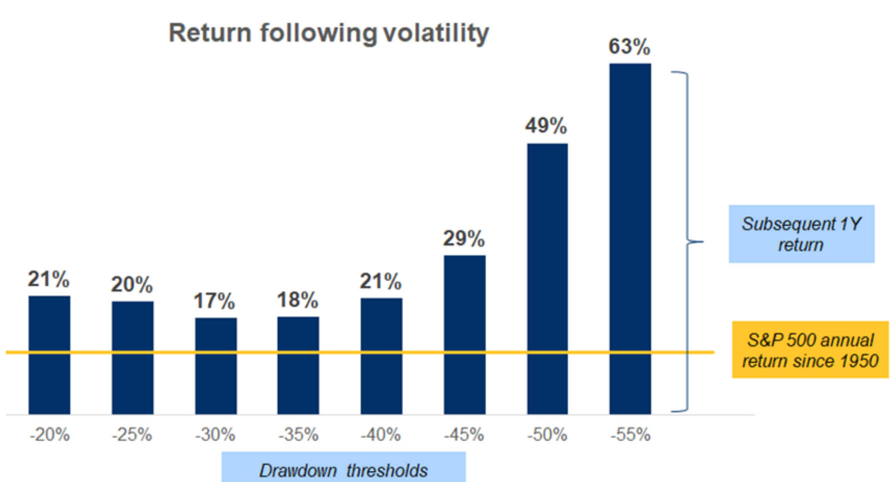
Source: RBC GAM, Bloomberg. As of March 24, 2020. S&P 500 TR (USD). An investment cannot be made directly into an index. The graph does not reflect transaction costs, investment management fees or taxes. If such costs and fees were reflected, returns would be lower. Past performance is not a guarantee of future results. Bull market starts from lowest close reached after market has fallen 20% of more. Bear market starts from when the index closes at least 20% down from its previous high.

From our historical analysis, we're able to glean a number of important observations:

1. **Bear markets come in all shapes and sizes.** Some bear markets are mild and quick, like the one in 1957 where U.S. equities fell 20.7% and then began to recover in about three months. Other bears have been quite severe. For instance, during the global financial crisis, U.S. equities fell nearly 57% during a bear market that lasted roughly a year and a half.

2. **Long-term resiliency of markets.** Regardless of the severity or length of the pullback, markets have always recovered along the path to achieving new highs.

3. **Lower asset prices should lead to higher long-term returns.** Trying to time the bottom of a bear market is next to impossible. That said, while we cannot predict the future, regardless of when people invest during a bear market, history suggests they are usually rewarded with superior market returns.



Source: RBC GAM, Bloomberg. S&P 500 TR (USD). Data reflects time period of January 1, 1950 to February 29, 2020. Subsequent 1-year return reflects the median 1-year return spanning all observations of the S&P 500 reaching the drawdown threshold. An investment cannot be made directly into an index. The graph does not reflect transaction costs, investment management fees or taxes. If such costs and fees were reflected, returns would be lower. Past performance is not a guarantee of future results.

Importance of a plan

Watching the value of your investments fluctuate can be an emotional experience. Yet, while it may not feel like it in the moment, bear markets are a normal part of the long-term investment cycle. During these times, making dramatic changes to your investment portfolio may feel like a natural reaction. However, this can have a serious impact on your ability to reach your long-term goals.

It's not easy to balance what you read in the headlines with the above observations of improved return potential. However, doing so in the context of a financial plan, can improve the odds of investment success.

Reduction of RRIF minimum withdrawals for 2020

By RBC Wealth Management

The Canadian government has introduced a number of measures to help alleviate financial hardship for Canadians brought on by COVID-19. One such measure is the reduction of required Registered Retirement Income Fund (RRIF) minimum withdrawals by 25% only for 2020. The Quebec government has also announced that it will reduce mandatory RRIF withdrawals by 25% for the 2020 tax year.

As locked-in plans are subject to the same tax legislation as regular registered plans, the temporary reduction will also apply to life income funds (LIFs), restricted life income funds (RLIFs), locked-in retirement income funds (LRIFs) and prescribed RRIFs.

Reduction of RRIF minimum payment

Normally, your RRIF minimum payment for each year, after the year your RRIF is established, is calculated by multiplying the fair market value (FMV) of your RRIF at the end of the previous year by a prescribed percentage factor. The prescribed percentage depends on your age or your spouse's or common-law partner's age (if applicable) at the end of the previous year (depending on whose age you elected at the time the RRIF was established).

In light of the current volatile market conditions, the Canadian government has enacted legislation to reduce RRIF minimum payments by 25% for 2020. In other words, you are only required to withdraw 75% of your unreduced required minimum payment for 2020. For example, if your 2020 minimum amount would have been $10,000, the reduced minimum amount will be $7,500. This measure will provide you with the flexibility of keeping more funds in your RRIF in order to benefit from tax-deferral on funds you do not need to meet your living expenses.

If you have not yet withdrawn your 2020 RRIF minimum payment, or have withdrawn only a portion of the unreduced payment, you can request the reduced minimum. If you have already withdrawn more than the reduced 2020 RRIF minimum payment, you will not be permitted to re-contribute any amount back to your RRIF.

In-kind RRIF withdrawals

It is possible to take a RRIF payment by withdrawing investments in-kind from your RRIF directly into your non-registered account. It is not necessary for your RRIF investments to mature or to be liquidated before you withdraw them. Transferring your RRIF payment in-kind to your non-registered account can be beneficial if you believe that the investments will increase in value as the market recovers. Keep in mind that if you are taking a payment in-kind from your RRIF in excess of the unreduced minimum amount, you must have the cash available to make the withholding tax payment.

Tax Implications

Withholding tax

Residents

The amount you withdraw from your RRIF determines the rate of withholding tax that will apply to your withdrawal. There is no withholding tax applied to your minimum payment. If you elect to receive an amount above the minimum payment, income tax will be withheld at source on the amount in excess of the minimum.

The reduced minimum for this year will not affect the withholding tax rules. In other words, if you decide to receive the unreduced minimum amount, you will still not be subject to withholding tax. If you withdraw more than the unreduced minimum amount, you will be subject to withholding tax on the portion that is above the unreduced minimum amount.

Non-residents

If you are a non-resident of Canada and you withdraw an amount from your RRIF, you are generally subject to Canadian non-resident withholding tax of 25%. However, a lower withholding tax rate may apply if Canada has a tax treaty with the jurisdiction where you are resident. Many tax treaties provide for a reduced withholding tax rate and some even provide for an exemption from withholding tax on periodic payments.

A RRIF payment would be considered periodic if the payments made during the calendar year are less than the greater of:

- Twice the minimum payment required for the year; or
- 10% of the FMV of the RRIF at the beginning of the year.

The minimum payment in this case would be the unreduced minimum payment and not the reduced minimum.

Income taxes

Your RRIF withdrawals are included in your taxable income and are subject to tax at your marginal tax rate. Your total taxable income will determine your total taxes payable. This means that the withholding tax you were subject to on your RRIF payments (if any) may not be your final tax liability.

If the tax withheld is greater than your final tax liability, you will receive a tax refund. Conversely, if your final tax liability exceeds the tax withheld, you will need to have available funds to pay the taxes owing by April 30, 2021. This is important to keep in mind, especially if you received an in-kind RRIF payment and you do not want to liquidate those securities to fund the potential tax liability.

Spousal RRIF

If you have a spousal RRIF and only withdraw the minimum required amount from the spousal plan, the income attribution rules do not apply. If you withdraw an amount in excess of the minimum, the excess is attributed back to the contributing spouse to the extent they made any spousal RRSP contributions in the year of withdrawal or the two previous years. The reduction of the minimum payment for 2020 will not affect the attribution rules. In other words, if you choose to receive the unreduced RRIF minimum amount, the attribution rules will not apply.

Conclusion

In an attempt to alleviate financial hardship, the government has reduced the required RRIF minimum withdrawals by 25% for 2020. If you do not need your entire unreduced RRIF minimum payment for your living expenses, consider taking advantage of the reduced minimum amount for this year. Withdrawing only the reduced minimum amount will not only help preserve your retirement savings but also delay the tax on funds you don't need this year.

That being said, consider whether it makes sense for you to receive the unreduced RRIF minimum payment and contribute the funds to a non-registered account. Taking your unreduced RRIF minimum payment may be advisable if you are in a low income tax bracket this year. Speak to your qualified tax advisor to assist you in making the best decision for you given your current financial circumstance.

This article may contain strategies, not all of which will apply to your particular financial circumstances. The information in this article is not intended to provide legal, tax or insurance advice. To ensure that your own circumstances have been properly considered and that action is taken based on the latest information available, you should obtain professional advice from a qualified tax, legal and/or insurance advisor before acting on any of the information in this article.

Administrative corner

During this time, we wanted to highlight the variety of secure online tools and services we offer to help you manage your wealth remotely and conveniently.

Your first step is DS Online, your window to digital solutions:

- DS Online allows you to access all of your RBC Dominion Securities account information securely and in one place. If you have not previously signed up for DS Online, you can call us and we'll be happy to help you get started.

Once you're on DS Online, you can access the following digital services:

- Opt-in to receive your important eDocuments (such as statements, trade confirmations, tax slips and more);
- Communicate safely with us via two-way secure messaging and file sharing;
- Transfer funds electronically to your RBC Dominion Securities accounts.

Benchmarks

Equity market 12-month trailing return (for month ending March 31, 2020)	
S&P/TSX composite total return index	-14.2%
S&P 500 total return (C$)	-2.0%
S&P 500 total return (U$)	-7.0%
DJIA total return (C$)	-8.7%
DJIA total return (U$)	-13.4%
Nasdaq composite price return (C$)	5.0%
Nasdaq composite price return (U$)	-0.4%

RBC Capital Markets Canadian bond market indices 12-month trailing return (for month ending March 31, 2020)	
Short-term index	3.2%
Intermediate-term	5.3%
Three-month T-Bill (C$)	1.9%
Three-month T-Bill (U$)	2.3%

Introducing Michael Cochrane

Michael, our Associate Investment Advisor, is a graduate of the University of Toronto, where he obtained an Honours degree in Economics. While at the University of Toronto, Michael played football for the U of T Blues. Michael embodies the role of team player, providing critical support in areas related to researching investment opportunities, executing portfolio recommendations, assisting with client portfolio reviews and coordinating other wealth management services, such as financial, insurance and estate planning.

When not in the office, Michael enjoys travelling with his family, exploring new cultures and food. Michael is an avid sports fan, especially baseball, Go Jays Go!

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