Wealth Management
& Capital Markets Perspective

Wealth Management
Dominion Securities

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

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Portfolio, sweet portfolio

A tale of five cities (and an equity market)
The S&P/TSX Composite Total Return Index vs. select Canadian real estate markets

Based on an initial $300,000 investment with no leverage over the past 25 years

Market	End value	Rate of return
S&P/TSX Composite Total Return Index	$2,410,431	8.3%
Toronto	$1,170,577	5.4%
Vancouver	$1,125,502	5.2%
Montreal*	$1,021,881	4.8%
Calgary	$983,057	4.7%
National avg.	$931,739	4.5%
Halifax	$831,220	4.0%

Sources: All data as of December 31, 2018. Housing price data compiled by RBC Global Asset Management Inc. from Canadian Real Estate Association (CREA). Source of the S&P/TSX Composite Total Return Index is RBC Global Asset Management Inc. All returns are annualized, and where applicable, compounded assuming reinvestment of all distributions. *Please note that data for the Montreal market is not seasonally adjusted.

Despite soaring home prices over the last few decades, many Canadians might be surprised to learn that, over the last 25 years, the average long-term growth of home prices in the country's major markets has been far less than the growth of the country's leading equity market index. That's not an argument against home ownership. Instead, it serves as a good reminder that diversifying your investments to ensure you take advantage of the long-term growth potential of equities is a smart way to get you "home, sweet home" to your retirement goals.

A house is a home, not (just) an investment

For most Canadians, a home is the single largest and most significant purchase they will ever make in their lives. In doing so, they leverage their often small amount of equity (usually as little as 5% to 25% of the purchase price) and cover the rest by taking out a mortgage from the bank.

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Of course, that's one of the most significant and wonderful aspects of home ownership: you can enjoy the purchase immediately, while paying the cost of it over a very long period of time, often as long as 25 years. From Day 1, you can take advantage of the leverage of paying only a fraction of the cost to live in a property that can be worth as much as 20 times that down payment. And, each mortgage payment you make builds your equity, taking you one step closer to full ownership.

The unloved but (hopefully) appreciated investment portfolio

Unlike a home, an investment portfolio doesn't allow us to enjoy the experience of bringing our first child home to it; of watching the height measurements of our kids grow ever higher on the kitchen wall; or, to remember the many anniversaries and birthdays we've shared with our families and friends over the years in it.

Without an emotional attachment and real enjoyment being derived from it, we tend not to love or care about our portfolios in the same way. But if we can't exactly love them, we can – and should – nonetheless appreciate them for the wealth that they can create for us, wealth that ultimately works to support the achievement of our goals. Because, despite our widespread belief that our home values grow faster than our investments, as the table on the previous page shows, the equity market's long-term return significantly outpaces that of homes in all major markets across the country – in some cases as much as doubling it.

Foundations of wealth

Your principal residence is where your heart is – but shouldn't necessarily be seen as your sole "principle" investment. Seeing your home this way can ignore significant risks, including the high costs of ownership (e.g., financing, taxes, upkeep and repairs). As well, a home is an illiquid asset, which can represent a real risk if you need to remove your equity at a certain time. Equities, while historically providing stronger long-term returns, also have their own associated risks and costs which need to be considered, including volatility. But, when taken together, the virtual "bricks and mortar" of your investment portfolio can work together with the actual bricks and mortar of your home to build the foundations of your wealth.

Don't let your portfolio go up in smoke

Caught up in the buzz, many Canadians bought into the cannabis stock craze of the last few years. Unfortunately, as is often the case with fads, chasing "the next big thing" – and failing to stick to their investment plans – has left many investors feeling burned.

Coming down from the high

In the euphoria that greeted the newly legalized cannabis industry, many investors simply got caught up in the buzz, buying cannabis stocks without really considering the financial prospects for these companies. Nor did they always consider how these more speculative stocks might fit within their long-term investment plan and comfort level with risk. The sector – as tracked by the Marijuana Index* – rose quickly starting in the Fall of 2017, and reached its all-time high in January of 2018. Unfortunately, since then, the Index has come down more than 50% as of August 2019.

Avoid reefer madness

While the nascent cannabis industry may one day find itself alongside such blue-chip stalwarts as banks, utilities and consumer staples, there is a long way to go. The recent cannabis stock craze, at this stage, appears to be yet another in a long list of fads that have burned investors over the years, from the "Tulip-mania" of the 17th century, to the "dot-com" bubble of the early 2000s. But it does provide another excellent lesson for investors to avoid the madness of crowds and short-term fads, and keep emotion out of the investment decision-making process to avoid potentially costly decisions.

Just say no to fads

While there are always some who manage to profit from short-term stock fads, most investors arrive too late to the party or don't leave early enough. While it's often easier said than done to avoid fads and crazes, here are a few ways investors can help themselves from doing so:

- **Have an investment plan**

Based on historical returns, the surest way to profit from equity markets is through a well-established investment plan. If it properly reflects your risk tolerance and aligns to your goals, it will be much easier to avoid the temptation to veer off of it.

- **Maintain a diversified portfolio**

Maintaining a balance of cash, bonds and equities appropriate for your risk tolerance, and ensuring that your portfolio holdings are well-diversified by sector and geography has historically generated solid returns over the long term, while also reducing risk.

*The Marijuana Index is a series of equally-weighted stock indices that track the leading cannabis stocks in the U.S. and Canada (marijuanaindex.com/about).
**RBC Global Asset Management, *Why's it's important to diversify*, 2019.

Better together: RRSPs and TFSAs

Since their introduction in 2009, Tax-Free Savings Accounts (TFSAs) have rapidly grown in popularity with Canadians, with the most recent figures showing that we own over 13 million TFSAs. And while the total assets in TFSAs ($232 billion) are still dwarfed by those in Registered Retirement Savings Plans (RRSPs) (over $1 trillion)*, they are catching up gradually as Canadians learn more about the benefits of these savings vehicles, and as the lifetime contribution amount – $69,500 as of 2020 – increases every year.

But since their introduction, a debate has raged about which is the better way to save – RRSP or TFSA? The simple answer is both, as the two account types offer excellent benefits for savers, and both can help you reach your goals.

RRSPs and TFSAs: similar, but different

Both RRSPs and TFSAs have unique characteristics, offering Canadians benefits that will help them grow their savings and reach their goals. Both offer account holders important investment and tax benefits, specifically tax-free growth of any investment income produced within either account. This "sheltering" allows account owner's funds to compound and grow at a faster rate.

However, there are a few important differences between them, as captured in the table below.

The right account for the right goal

Generally speaking, RRSPs work best for long-term savings goals like retirement, with some notable exceptions being for a home purchase or education funding (tax-free withdrawals are allowed under the First-Time Homebuyer's Program and the Lifelong Learning Plan). As withdrawals are fully taxable at the account holder's marginal tax bracket, the general idea with RRSPs is to wait until one has entered their retirement years before withdrawing funds to support their cash flow needs; conversely, contributors benefit from the tax-deductibility of their contributions when their marginal tax bracket is higher.

For many Canadians, RRSPs are seen as a long-term savings vehicle due to their more restrictive rules and the taxability of withdrawals. Given their far greater flexibility, TFSAs are often used for shorter-term goals or simply as a savings account, but can be ideal for longer-term goals like retirement, too.

RRSPs and TFSAs: different, but the same

While different from RRSPs in many ways, TFSAs are the same as RRSPs in one important way: they provide important tax saving and compounding benefits to help investors grow their wealth. Whether you should use a TFSA, an RRSP or both for your savings needs largely depends on your unique goals and circumstances.

	RRSP	TFSA
Contributions	Tax deductible	Not tax-deductible
Withdrawals	Fully taxable	Not taxable
Eligibility	You must have earned income	You must be a Canadian citizen and have reached the age of majority of your province of residence
Contribution limits	18% of your earned annual income from the previous year (less any pension adjustment), to a maximum limit as set by CRA (for 2020 it is $27,230)	$6,000 for 2020 and a lifetime limit as of 2020 of $69,500
Carry-forward	Yes, until the year you turn 71	Yes, indefinitely
Ability to contribute after age 71	No, must convert to a RRIF or annuity by the end of the year you turn 71 or close the plan	Yes
Withdrawals affect government benefits?	Yes	No

*Statistics Canada, 2016.

Administrative corner

To help with this busy time of year, here are some tips for tax reporting:

- Tax slips will be mailed starting early in February until approximately the end of March. In addition to your tax slips, your tax package will include your fee summary, gain / loss report and foreign property summary.
- Please provide the package in its entirety to your accountant. If you would like your accountant to receive a duplicate copy of your tax package, please contact us directly.
- You also have the option to switch to e-Tax, which would enable you to receive your tax package via your DS Online access. To learn more about this option, please contact us directly.

RBC Dominion Securities (DS) – Tax reporting schedule	
RBC DS completes all tax reporting	March 31

Important personal tax deadlines	
Personal income tax installments	March 16, 2020 June 15, 2020 September 15, 2020 December 15, 2020
Personal income tax return filing	April 30, 2020
Self-employed income tax return filing	June 15, 2020
Balance owing for taxes payable	April 30,2020

Benchmarks

Equity market 12-month trailing return (for month ending December 31, 2019)	
S&P/TSX composite total return index	22.9%
S&P 500 total return (C$)	25.2%
S&P 500 total return (U$)	31.5%
DJIA total return (C$)	19.4%
DJIA total return (U$)	25.3%
Nasdaq composite price return (C$)	28.8%
Nasdaq composite price return (U$)	35.2%

RBC Capital Markets Canadian bond market indexes 12-month trailing return (for month ending December 31, 2019)	
Short-term index	3.1%
Intermediate-term	5.8%
Three-month T-Bill (C$)	1.7%
Three-month T-Bill (U$)	2.3%

Happy New Year!

All the best in 2020 from Grimes Handscomb Asset Management of RBC Dominion Securities

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