Future Financial News

Certified Financial Planners, Chartered Financial Consultants, Chartered Life Underwriters

WINTER 2022 NEWSLETTER

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Carl's Comments

While many of you have already had the pleasure of speaking with Robin, we would like to take this opportunity to formally introduce Robin to you. Robin started with us in the fall replacing Hannah, who left earlier this year to pursue her passion in marketing and design. Robin's personable nature, attention to detail along with her other skills and abilities will be a benefit to everyone.

This has been a year unlike any other that I can remember and one that I certainly won't forget. Just when it felt like we were out of the Covid woods, the announcement of the Omicron variant over the US Thanksgiving holiday weekend opened up many concerns all over again. I was reminded that we have yet to receive the "all clear". We hope, as you do, that the renewed health and safety protocols along with high rates of vaccination in Ottawa and Canada will see us through this next wave safely. Markets for now (at the time of writing) seem to have steadied.

I would like to say thank you to our clients for placing your trust in Julie, Robin and myself and I wish you all good health and happiness for 2022!

The 2022 TFSA limit remains at $6000.

Contact us about making a contribution in the New Year!

Big Banks to Stop Selling Third Party Funds

Branch-based clients of TD, CIBC and RBC may have noticed that earlier this year, their bank removed third party mutual funds from their product offerings. Instead, investment options are limited to the banks' in-house, propriety products. This is big news in the investment industry with critics arguing that by only offering your own product, you are limiting clients from purchasing other, possibly better investments. The rationale for this change, is that new regulatory reforms will soon require advisors to have an even deeper knowledge of funds they recommend to investors. By limiting investment choice, you reduce the risk being non-compliant as it relates to these new reforms. The justification behind the new Know Your Product (KYP) initiative is to protect investors but for some RBC, CIBC and TD clients, it may actually come at a cost. TD stated that it wanted to offer "the most competitive" products and simplify its product shelf. While this will most definitely simplify what's offered, it is questionable if in-house offerings can really be the most competitive and suitable to a variety of clients.

Source: Investment Executive - Banks trim product offerings ahead of CFRs. August 30, 2021

The BEST Tax Minimizing Strategies

Outlined below are different tax saving strategies for retirement planning. For most, tax on employer pensions, RRSP or RRIF income will be the cause for most concern as it will have the largest tax implication. Planning your short and long-term exit strategy for retirement assets may significantly reduce your overall tax liability.

1) Use Spousal RRSPs when income widely varies from one spouse to another. The goal is to equalize income in retirement, reducing your overall tax burden.
2) Income split up to 50% of eligible pension income with your spouse, again to equalize income. Works best when spouses are in different tax brackets.
3) Use a spousal loan for income splitting. This can be done before or during retirement. This shifts non-registered investment income from a high rate spouse to a lower rate spouse.
4) CPP sharing can be a useful tool, again when one spouse has a higher benefit than another. Here, a maximum of 50% of each spouse's pension can be split (must be at least 60 years of age). If you are applying for or are already receiving a CPP

retirement pension, you can apply for pension sharing.

5) Timing of CPP and OAS payments can drastically change one's retirement income. Consider life expectancy, cashflow needs, impact on income tested benefits, whether you will reinvest or spend the benefit and changes to future tax rates.
6) RRIF minimum income can be based on your age or that of a younger spouse. You may make a final RRSP contribution on Dec 31st of the year you turn 71 to your own RRIF or if making contributions to a spousal RRIF, Dec 31st of the year your spouse turns 71.
7) Continue to save within TFSAs in retirement.
8) Incorporate tax-preferred investment income in non-registered accounts (capital gains, return of capital are ideal). Weight more heavily fixed income assets in your RRSP/RRIF as they are fully taxable.

To discuss any tax efficient strategies that may apply to you, please call the office.

Source: Mackenzie Investments. What's the best retirement income tax strategy for you?

Making the Most of RESPs

If you have a child under 16, are you contributing to an education savings plan? Are you aware of all the benefits that RESPs offer? The results of a survey conducted this past August by Canada Life, show that 80% of Canadian parents are not aware of all the advantages and might be overlooking some financial benefits.

Here's a quick recap on the rules.

The Federal government will grant each child 20% on all contributions, up to $500 per year. If you have grant carryforward room, the maximum annual contribution is $5000 for a grant of $1000. If you live in Quebec, there is an additional grant (QESI) of 10%, up to a maximum of $250 per year. The same carryforward rules apply as the Federal grant.

In addition to the basic grants above, if your income is low in a given year, you may also qualify for the additional Canada Education Savings Grant, the Canada Learning Bond (CLB) and/or 'additional amount' in Quebec. Did you know that RESP contributions are <u>not</u> required to receive the CLB. You simply need to open an account and if you qualify, the CLB will be paid into the account.

To encourage long-term savings and compounding, beneficiaries that are 16 or 17 years old can only receive RESP grants if one of the following is true.

- At least $2000 has been contributed before the end of the calendar year the child turned 15; or
- A minimum annual contribution of $100 was made to the RESP in at least four of the years before the end of the calendar year the child turned 15.

Tax is paid by the beneficial child on grants received and growth on the investments. This taxable amount is only due in the tax year after a withdrawal is made. There is no tax on withdrawals of contributions.

The survey also noted that some parents and grandparents use in-trust accounts and TFSAs for education savings. Saving in this manner for education can be effective when annual RESP contributions have been maximized and you are seeking another vehicle for tax deferred or, in the case of TFSAs, tax free growth. RESP contributions also make excellent birthday and Christmas gifts!

Saving early, combined with government grants, tax deferrals and compounding really does go a long way to helping fund a child's education. Should you have additional RESP questions, please reach out. We are happy to discuss.

Source: Investment Executive: Clients don't understand RESPs, poll suggests. Sept 9, 2021

Inflation is like toothpaste. Once it's out, you can hardly get it back in again.

-Karl Otto Pohl

The Truth on Real Return Bonds

We've had many discussions this past year on inflation and bonds and if real return bonds (RRBs) can be used to offset some of the inflation risk in a fixed-income portfolio. Inflation has been a big topic in 2021. A Google search for the term yielded over seventy-two million news hits, and according to Google trends, the search term is at its all-time peak in terms of popularity for Canadians.

When investing in bonds, an investor is likely looking to protect from market volatility or inflation. However, there are other risks, including liquidity, credit, interest rate and duration.

RRBs are a type of government bond designed to reduce the effects of inflation. The bonds are fixed to the Consumer Price Index and adjusted twice a year. In principle, you can maintain your purchasing power with RRBs however in practice, as investors aren't buying individual bonds, but rather investing bond funds or ETFs, investors may not be benefitting from the inflation-protection nature of one specific security.

The risk with RRBs is interest rate and duration risk, as these bonds have a fairly long duration. As of the end of October, the Real Return Bond Index had a duration of just under sixteen years! Bonds with longer durations tend to underperform when yields are rising. At times, they can perform well when inflation is moving higher (i.e. 2008 through 2011), but in that same period yields were also moving lower and actually fell, resulting in outperformance.

In the current environment, we're seeing higher inflation but also higher yields, and as a result, underperformance of RRBs. From the beginning of this year to the end of October, inflation has risen from 0.7% year-over-year to 4.7%, and the 10-year Government of Canada bond yield has more than doubled from 0.675% to 1.721%. The FTSE Canada Real Return Bond Index has been one of the worst performing bond indices, down 5.9%.

In summary, RRBs protect against inflation but aren't likely to help in a rising rate environment. Performance of RRBs is linked more to yields than to actual inflation.

Source: Manulife Investment Management. All that glitters is not gold–real return bonds may not be as promised. Dec 2, 2021

Moving to T+1

The U.S. securities industry is planning to reduce the securities settlement from two days after the trade date (T+2) to one day (T+1) by the first half of 2024. According to the Canadian Capital Markets Association (CCMA), Canada intends to do the same to maintain harmonization with U.S. settlement standards. You may recall in 2017, settlement dates were reduced from T+3 to T+2. Besides reduced settlement risk and lower collateral costs for the clearing houses, this change benefits clients as they can access their funds more quickly than before.

Source: Investment Executive: The march to T+1 is on. Dec 2, 2021

Getting to Know You (Again)

In the next several months, we will be reaching out to many of you to update your client profile. It is a requirement of the Mutual Fund Dealers Association of Canada (MFDA) that whenever there is a material change or at a minimum of every three years, we update this Know Your Client (KYC) document with you. Thanks to e-signatures and Docusign, the process could not be easier. There's no need to send forms through the mail and once all parties have signed, you'll receive an electronic copy of the document for your records.

It is important that your KYC document is current and accurate. Should there be any changes in your employment, marital status, if you have moved or have a new phone number or email, we ask that you notify our office as soon as you can. Additionally, any changes to your stated risk tolerance, time horizon and investment objectives, as well as any situation that would have significant impact on your net worth or annual income (for example, a job loss, long term illness, or new debt financing) should be communicated to us. If in doubt, give us a call. We'd love to hear from you!

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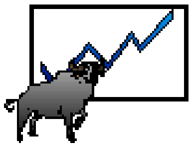
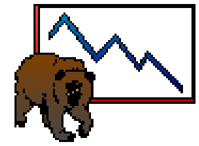


FFPG FUND REPORT

Compounded to December 21, 2021



Fund	YTD	1 yr %	3 yr avg %	5 yr avg %	10 yr avg %
CANADIAN EQUITY FUNDS					
Dynamic Equity Income Sr. A	19.61	20.36	14.20	8.96	8.64
Fidelity Canadian Large Cap Sr. B	20.80	20.36	14.06	7.71	10.39
Fidelity Canadian Growth Sr. B	4.60	3.05	27.06	15.38	17.35
Fidelity Dividend Plus Sr. B	23.53	24.02	12.60	7.22	7.88
IA Clarington Strategic Equity Income Sr. A	24.49	25.49	12.80	7.19	8.27
Fidelity Canadian Opportunities Sr. B	17.78	19.18	23.54	13.41	11.55
US/INTERNATIONAL/GLOBAL EQUITY					
Dynamic Global Discovery Sr. A	10.61	11.90	16.68	13.33	12.86
CI U.S Equity Sr. A	22.54	23.94	18.72	11.88	14.52
Guardian Fundamental Global Equity Sr. W	17.12	18.26	19.23	16.74	n/a
BALANCED FUNDS					
Fidelity Monthly Income Sr. B	9.77	10.06	9.40	5.33	6.21
Fidelity Canadian Balanced Sr. B	9.57	9.99	11.60	6.72	7.28
Dynamic Blue Chip Balanced Sr. A	5.19	6.22	13.18	9.53	8.32
Mackenzie Canadian Growth Balanced Sr. A	11.92	12.29	13.53	8.95	10.43
GLOBAL BALANCED FUNDS					
IA Clarington Loomis Global Allocation Sr. A	12.11	12.63	15.62	11.04	8.29
Dynamic Global Strategic Yield Sr. A	5.76	6.70	7.15	4.64	n/a
Dynamic Global Asset Allocation Sr. A	8.78	9.89	11.80	9.41	9.62
Edgepoint Gl Growth and Income Port Sr. A	9.53	9.66	7.06	5.74	10.31
Fidelity NorthStar Balanced Sr. B	5.45	5.49	8.10	4.71	n/a
Fidelity Global Balanced Portfolio Sr. B	7.08	7.45	11.12	7.47	8.29
CI Global Income and Growth Sr. A	13.53	14.14	13.35	8.68	9.46
SMALL/MID CAP FUNDS					
Dynamic Small Business Sr. A	14.35	15.84	12.57	5.95	6.98
Fidelity Small Cap America Sr. B	19.12	18.66	9.84	7.57	14.42
IA Clarington Canadian Small Cap Sr. A	21.18	22.24	13.49	4.82	9.70
Mackenzie US Small Mid Cap Growth Sr. A*	17.90	16.07	18.47	13.66	15.28
CI Cdn Small / Mid Cap Equity Income Sr. A	16.29	17.61	15.46	7.48	11.46

All Mutual Funds Sold by Prospectus Only & Alternative Funds Sold by Offering Memorandum

Future Financial Newsletter is an information service. It does not render accounting, legal or other professional advice. It is recommended that the reader consult professional advisors with regard to any matter in this publication. Future Financial Planning Group (FFPG) is an independent financial, estate and tax planning firm dealing with many financial instruments offered through trust companies, insurance companies and mutual fund companies. The indicated rates of return are the historical annual compounded total returns including changes in share or unit value and reinvestment of all dividends or distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns. Rate of returns provided in the chart above obtained from morningstar.ca and arrow-capital.com (Arrow Funds). Although we believe the sources used to be reliable, we cannot guarantee its accuracy. *As of Dec 22, 2021

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