PERSPECTIVE

Second Quarter 2021

BOYCHUK KNOBLAUCH
FINANCIAL GROUP

To Our Clients:

The winter months may have felt particularly long this year, but spring is finally here. This may be a good time to consider a spring clean of your finances. It may be as simple as updating your registered plan beneficiaries or contributing to fully maximize your TFSA.

At the time of writing, equity markets continue their climb. Worth repeating: corrections are a normal part of the markets and staying invested is important. Stick to your plan and call if you require support.

— Tyson and Dean

In This Issue: Page

THE MARKET PENDULUM SWINGS...

A BRIGHTER ECONOMIC OUTLOOK

Stock market valuations can swing back and forth from one extreme to the other, sometimes being depressed and offering high value, and at other times appearing overvalued and speculative. Somewhere in the middle of this swing may be the fair value of any particular equity.

Consider how quickly the market's pendulum changed course over just the past year. After last spring's significant drop in the markets, in the midst of the greatest economic and public health crisis of our time, the pendulum swung to the other side. To start 2021, the S&P/TSX Composite (TSX) and S&P 500 indices posted record highs, with many stock valuations appearing stretched.

Of course, equity markets are forward looking in nature: economies will eventually fully reopen and pent-up demand is anticipated to be released. However, other factors have helped to push the markets higher. With central banks pledging to keep interest rates low for the near term, investors have turned to equity markets given a lack of alternatives. Continuing stimulus measures have also helped to inflate asset prices. A rise in low-commission trading platforms has enticed many new investors to enter the markets, often trading based on momentum.

More recently, long-term bond rates have been rising, which has increased inflation expectations. Yet, this shouldn't be a surprise: rising yields are often seen when economic expectations strengthen. In the U.S., where the opening of the economy is, to a considerable extent, ahead of Canada, recent employment and manufacturing data has been better than expected.[1] Here at home, accelerating vaccination programs continue to support the path to economic reopening — the light at the end of the tunnel we have long awaited!

Will the markets continue their climb? For many investors, there is limited value in trying to predict the near-term direction of the markets; after all, the overall success of your wealth plan isn't dependent on calling the top of any cycle. Yet, consider that equity markets can often progress further than many believe. With growing optimism for a return to normal, there has been some rotation into areas of the markets that are expected to benefit as economies reopen. Volatility has also returned, largely in market sectors that have seen significant gains throughout the pandemic. After many months of market advances, this can be expected and may provide opportunities to put capital work as investors continue to build portfolios for the future.

For most investors, the investing journey will be a long one. With a sound wealth plan to guide us, and a portfolio built on quality, diversification, and focused on the longer-term, it should serve us well no matter where the market pendulum may swing. Continue to have confidence in that plan, enjoy the market advances and look forward: brighter days are ahead!

1. bloomberg.com/news/articles/2021-03-05/u-s-feb-payrolls-increase-379-000-est-200-000

ESTATE PLANNING: CHECK IN WITH YOUR EXECUTOR

When was the last time you reviewed your estate plan? While this should be done at least every five years or when personal circumstances change, the pandemic reminds us of the value in revisiting plans when circumstances around us also change.

As part of your review, one place to start is with those appointed to help carry out your estate plan: the attorney* named under power of attorney (POA) documents and the executor* of your Will. Here are a few considerations:

The importance of checking in. When was the last time you spoke to your named executor or attorney about the role? The pandemic may have altered an individual's capacity to act on your behalf. A front-line healthcare worker may not be able to manage additional duties if under significant work obligations. Immune-compromised individuals may be unable to safely perform certain functions of the role. If the individual is not aware that they have been appointed, consider that court intervention will be required if they are unwilling or unable to act and an alternate has not been named. Under normal circumstances, this is a lengthy and costly process; throughout the pandemic, this has been complicated by further delays as court operations have been impacted in many provinces.

The value in communicating the "basics." Have you provided direction to help support those acting on your behalf? With your executor/attorney, have you communicated where important documentation can be found? This is important to prevent an unnecessary search, and with many businesses still having reduced operations (including banks, law firms), access to documents may be made more challenging. Is your executor/attorney aware of the financial or healthcare choices you wish to make in the event of incapacity? The health consequences of

Covid-19 have highlighted the differing outcomes that some may find more controversial, such as the use of a ventilator for life support.

Is your executor/attorney aware that tasks may need to be carried out differently? There have been positive changes as a result of the pandemic — many provinces have allowed for virtual witnessing of certain documents or electronic submissions for some court-related applications.** However, the pandemic has also made seemingly easy procedures more difficult or time-consuming, such as constraints on in-person meetings. Jointly appointed executors/attorneys may struggle to effectively act in unison. With limits on travel, if an executor/attorney doesn't live locally, can they fulfil their role?

In some cases, changes may be needed, such as appointing temporary alternatives during this period. However, the impact of the pandemic on those appointed to support you is just one area to contemplate as you review your estate plan. For a discussion on this, or other aspects of your estate plan, please get in touch.

*Also called mandatory and liquidator, respectively, in Quebec. **Some measures have been approved under emergency conditions and may be temporary.

WEALTH CREATION: THE VALUE OF $30 PER WEEK

Success in building wealth has always started with saving. What may seem like a little can make a big difference over time if you're able to stick to a regular savings plan.

If you have (grand)children learning about finances, the table to the right may be a worthwhile share. It shows the potential impact that just $30 per week of savings — or $1,560 per year — can have down the road based on various rates of return. It's a good reminder of the power of time and compounding as we save for the future.

For those wanting to save more, it may be as simple as making moderate lifestyle changes, such as reducing impulse purchases or giving up the daily designer coffee. Perhaps the pandemic hasreduced your discretionary spending, and these funds can be invested to make a significant impact on your future nest egg.

As the old saying goes, "mighty oaks, from little acorns grow," and it all starts with saving.

Table: How Much is $30 Per Week Worth?

	Annual Rate of Return*		
Years	4%	5%	6%
30	$90,226	$108,194	$130,587
40	$153,655	$198,383	$258,894
50	$248,216	$346,925	$492,335

*Assumes compounding at monthly rate, no taxes or fees. For illustrative purposes only.

DON'T NEED EXCESS FUNDS? RRIF WITHDRAWAL PLANNING

While Registered Retirement Savings Plan (RRSP) season may be over, if you are nearing the age in which you will be converting your plan to a Registered Retirement Income Fund (RRIF), consider thinking ahead. Equally important as contributing to your RRSP is planning for the eventual withdrawal of funds from your RRIF.

As you think about retirement, maximizing your retirement income is an important part of this exciting transition. Ultimately, it's your after-tax income that counts: paying the least amount of tax on your income can help you keep more of your hard-earned dollars.

Carefully consider and plan for all sources of income, including pension income, non-registered assets, and Tax-Free Savings Accounts (TFSA). If you have sufficient funds through pension income and non-registered assets to meet your retirement expenses, it may make sense to only withdraw the mandatory minimum amount from your RRIF or locked-in plans such as a Locked-in Fund (LIF), Locked-in Retirement Income Fund (LRIF) or Prescribed Retirement Income Fund (PRIF) each year. This allows for continued tax-deferred growth within the plan. Here are some additional strategies to help keep funds invested for longer:

Base the withdrawal rate on a younger spouse's age — If you have a younger spouse, consider basing your withdrawal rate on their age in order to lower the amount of the required annual withdrawal, thereby helping to keep more assets to potentially grow within the plan on a tax-deferred basis.[1]

Make your first withdrawal at the end of the year in which you turn 72 — You are required to convert your RRSP or Locked-in Retirement Account (LIRA) into a RRIF/LIF/LRIF/PRIF by the end of the year in which you turn age 71, but don't need to make the first withdrawal until the end of the year in which you turn age 72.

Time annual withdrawals at the end of each year — The timing of withdrawals can make a difference over time. If you take your withdrawal at the end of each year, instead of the beginning, you allow for greater time and potential compounding of funds within the plan.

For example, consider a 71-year-old with a marginal tax bracket of 40 percent and a RRIF worth $500,000 that has an annual rate of return of five percent. If this individual withdraws the minimum from the RRIF at the end of the year in which they turn 72, the after-tax income from age 72 to age 90 will be higher than if payments were made at the start of the year. As well, by the age of 90, $315,970 would be remaining in the RRIF, as opposed to $293,177, if payments were made at the start of every year.[2]

Plan Ahead

While these strategies involve minimum withdrawals from your RRIF, consider that, in some cases, withdrawing more than the minimum amount can improve an overall lifetime tax bill. Every situation is different. As such, please get in touch if you require support as you think ahead.

1. Provincial locked-in plan legislation for LIF/LRIF/PRIF allows for the use of a younger spouse's age, with the exception of New Brunswick; 2. Based on current prescribed RRIF withdrawal factors.

Example: Impact of Timing Withdrawals Starting at Age 72*

Age This Year: 71 | RRIF Value: $500,000
Marginal Tax Bracket: 40% | RRIF Annual Rate of Return: 5%

	Withdrawal at...	
	Start of Year	End of Year
Cumulative After-Tax Income	$376,090	$388,271
90 Years Old: RRIF Remaining Value	$293,117	$315,970

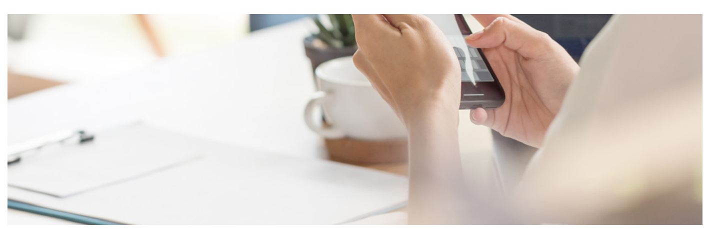
*Based on current RRIF minimum withdrawal factors. Illustrative only.

WORK FROM HOME? DON'T FORGET TO CLAIM EXPENSES

It's personal income tax season once again. If you worked from home as a result of the pandemic, the Canada Revenue Agency (CRA) has introduced two simplified methods for claiming the home office expense deduction on your 2020 personal income tax return:

New Temporary Flat Rate Method — If you worked more than 50 percent of the time from home, for at least four consecutive weeks in 2020 due to Covid-19, you may claim $2 for each day worked from home, to a maximum of $400 per individual.

Simplified Detailed Method — For home office expense claims exceeding the temporary flat rate maximum of $400, the CRA requires individuals to use a "detailed method," where a worker must calculate the employment use of their home workspace. The CRA has now created a simplified form for the detailed method, *Form T2200S*. While this form does not have to be attached to the tax return, it should be saved for auditing purposes. The CRA has also provided an online calculator to help perform workspace calculations.



In both simplified processes, employees must complete and attach *Form T777S, Statement of Employment Expenses from Working at Home Due to Covid-19*, to their tax return. Due to the pandemic, the CRA will accept an electronic employer signature on *Form T2200S*.

Changes to Eligible Expenses — The CRA has also expanded the list of claimable expenses. As a result, reasonable home internet access fees may now be claimed. Detailed information regarding allowable expenses and claims can be found at the Government of Canada website: canada.ca/cra-home-workspace-expenses.

DURING MARKET ADVANCES: THINK LONGER TERM

In the first six weeks of 2021, the S&P/TSX Composite Index hit six new all-time highs. Despite being a year in which a pandemic made economic conditions some of the worst in history, the S&P 500 Index hit 30 new all-time highs in 2020.

For some, buoyant market times may be cause for discomfort: while markets can climb, they can also fall. But here are a handful of considerations that may help to keep perspective:

Don't forget your time horizon — With many of us spending extended periods of time at home, it may be easy to pay greater attention to daily market movements. Yet, most of us are longer-term investors with a time horizon extending beyond today. Longer-term investors will see numerous peaks — and troughs — across market cycles. But, history has shown that the longer your time horizon, the greater the possibility of positive outcomes.

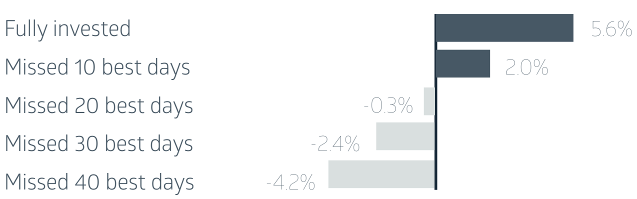
Likelihood of Positive S&P/TSX Composite Outcomes Based on Time

Time Frame	Positive	Negative
Daily	56%	44%
1 Year	75%	25%
5 Years	88%	12%
10 Years	95%	5%
20 Years	100%	0%

Source: S&P/TSX Composite Index, 1970 to 2020.

Timing the markets is difficult — While avoiding a drop in the markets is good in theory, accurately timing the markets is a difficult, if not impossible, task. And, it's not just about protecting your investments from market drops — equally important is benefiting from market gains. After the market lows last spring, many were surprised at the speed in which markets reversed their course. Consider the consequences of missing the best days of performance in the markets.

Impact of Missing Best Days of Performance, S&P 500 Index



Source: S&P 500 Total Returns, 1/1/1999 to 1/1/2019.

Consider rebalancing — If gains in your portfolio make you want to take action, consider making adjustments to your asset allocation or portfolio diversification. When we think about the process of reallocation, we often look for opportunities to adjust into areas that stand to benefit in changing environments or pare back positions that have exposure to negative dynamics. Rebalancing, to get your asset allocation or portfolio diversification back to its target, may be one way to take some gains while keeping invested for the future.

Rely on professional support — The high valuations of current markets may make it difficult to see opportunity. Yet, there are areas of the markets that haven't experienced the same acceleration in performance. For example, at the time of writing, value stocks have had a sharp run over the past seven months, but not the extended gains of growth stocks. One of our roles is to critically assess the potential opportunities that may exist, or are to come, while managing risks in a challenging landscape.

Continue to look forward, enjoy the advancements of the markets and leave the day-to-day worries of your portfolio to the professionals who are here to manage it.

WITH THE COMPLIMENTS OF...

Boychuk Knoblauch Financial Group

Tyson C. Boychuk, CIM
First Vice-President
Portfolio Manager
Investment Advisor
604.641.4394
tyson.boychuk@cibc.ca
Tyson Boychuk

Dean R. Knoblauch, CFA
First Vice-President
Portfolio Manager
Investment Advisor
604.641.4386
dean.knoblauch@cibc.ca
Dean Knoblauch

Tom W. Cowans, CFA
Portfolio Manager
Associate Investment Advisor
604.608.5202
tom.cowans@cibc.ca
Tom Cowans

CIBC Wood Gundy
400 - 1285 West Pender St.
Vancouver, BC V6E 4B1
Toll Free: 800.661.9442
Edmonton: 780.491.0113
Whitehorse: 867.667.7402
www.BoychukKnoblauch.com