First Quarter 2020

BOYCHUK KNOBLAUCH
FINANCIAL GROUP

To Our Clients:

Another year in the books: 2019 was full of geopolitical concerns, slowing economies, ongoing trade tensions and another hard run for the resources sector at home. And, yet, equity markets in Canada and the U.S. held their own quite well. The year ahead promises to be interesting, given the length of economic recovery, ongoing trade issues and a U.S. presidential election, historically a time of strength for U.S. equity markets.

The start of the year brings RRSP season, a reminder that we should be doing all we can to invest in a tax-advantaged way. If you need assistance with RRSP or TFSA contributions, please get in touch.

As always, we remain here to be of service to you. Welcome to the new decade!

— Tyson and Dean

In This Issue: Page

WHAT IS YOUR LEGACY?

When billionaire philanthropist and investor T. Boone Pickens passed away last fall, he left behind a final message. In it, he shared answers to a question that he was asked time and again: What is it that you will leave behind?

The letter is a worthwhile read that offers inspiring thoughts from a life well lived, "*driven by the sad reality that...life really did have a fourth quarter and the clock would run out*." Some of Pickens' most influential guidance came from his grandmother who always made a point of making sure he understood that "*on the road to success, there's no point in blaming others when you fail*". He also recounted the advice of his mother who preached throughout her life to "*be generous*".

These influences contributed to a life that, by many accounts, left an enormous legacy. Pickens' life began modestly, born as the depression-era son of a landsman and office administrator. He amassed his wealth working in the oil industry and running a hedge fund, eventually concluding that he "*was put on this earth to make money and be generous with it.*" When asked by Warren Buffett to take the Giving Pledge[1] in 2010, he immediately agreed to donate the majority of his wealth to charity.

While such a magnitude of contribution is out of reach for most of us, Pickens' message is a good reminder that we can each work to create a legacy in our own capacity. A person's legacy is not just about how you are remembered after you are gone and it doesn't require large sums of money. It can often encompass the impact you have while you are alive.

The work we do as investment advisors is important in this regard. Beyond our role in helping you to achieve your financial goals, we are also here to support your legacy. Creating a living legacy today may be as simple as imparting financial wisdom to the younger generations, assisting a (grand)child with their education or giving to a charitable organization during your lifetime. Also integral to your legacy is putting in place an effective estate plan so that you can be remembered in the future. After all, in the words of Pickens, eventually "*it's time we all move on*".

Pickens leaves us with some final thoughts, perhaps ones to reflect on as we begin another year:

"My wealth was built through some key principles, including:
- A good work ethic is critical.
- Don't think competition is bad, but play by the rules.
- Learn to analyze well. Assess the risks and the prospective rewards, and keep it simple.
- Learn from mistakes. That's not just a cliché. I sure made my share.
- Be humble.
- Stay fit. You don't want to get old and feel bad. You'll also get a lot more accomplished.
- Embrace change. Although older people are generally threatened by change, young people loved me because I embraced change rather than running from it. Change creates opportunity.
- Have faith, both in spiritual matters and in humanity, and in yourself. That faith will see you through the dark times we all navigate."

What will be your legacy? Pickens poignantly reminds us: "*It's your shot now.*"

*The entire letter is available online at https://boonepickens.com. If you do not have access, please call and we will arrange to get a copy to you; 1. https://givingpledge.org/

PLAN AHEAD: THE PRINCIPAL RESIDENCE EXEMPTION

A home is often the single largest asset that an individual owns. With rising housing prices in many parts of the country, it may also be an appreciating asset. Many of us expect to eventually use the Principal Residence Exemption (PRE), which provides an exemption from tax on the capital gain at sale/disposition for a property designated as a principal residence.

Prior to the 2016 tax year, the Canada Revenue Agency (CRA) did not require taxpayers to report the sale of a principal residence if it was designated as such for each year it was owned. Since that time, the sale/disposition of a principal residence must be reported on an income tax return for that year. As such, given increased scrutiny, it is important to understand the rules for future tax planning purposes.

What is considered a principal residence?

For a property to be declared a principal residence, you must own the property (solely or jointly) and it must have been "ordinarily inhabited" by you (or your current/former spouse or common-law partner, or any of your children) at some time during the year (this test may be met even where the individual lives in the property for a short period of time). The property must be designated as your principal residence for a particular tax year, and you and your family unit can only designate one property per year after 1981 (see the CRA website for greater details: canada.ca/en/revenue-agency.html/).

Here are three situations in which there have been surprises for those wishing to claim the PRE.

Inhabiting the property — As seniors transition into retirement, moving into collective dwellings such as long-term care facilities can create tax implications for a principal residence. Since a taxpayer (or another qualifying person) must ordinarily inhabit the property in order for it to qualify, some families are caught off-guard when they cannot declare a property as a principal residence during the time the owner lived in a seniors' facility. If the senior doesn't wish to sell the property, a potential option may be to have an adult child occupy the home during this period. However, there may be implications for the adult child.

Time spent away from Canada — Generally, the principal residence exemption is only available for years during which you are resident in Canada. As such, you may not be able to claim the PRE for any year throughout which you are a non-resident.

Change in use — If a property is converted to a rental property for income tax purposes, you may lose the ability to claim the principal residence exemption.

This article is intended to provide general information only and should not be construed as specific tax or legal advice. Consult legal and tax advisors to understand the implications for your situation.

DON'T OVERLOOK THE BENEFITS OF DIVIDENDS

An article recently published in The Globe & Mail highlighted a little known benefit of the dividend tax credit: the opportunity to earn up to $52,000 in tax-free income from eligible dividends earned in a non-registered account in certain provinces (chart). With no other sources of income, the dividend tax credit and the basic personal amount have the potential to reduce the taxes on eligible dividends to zero.[1]

While a neat opportunity in concept, most of us have employment or pension income that would get in the way. It would also be rare for many investors to have a portfolio that would generate $52,000 of eligible dividend income. At a 4% dividend income, this would require more than $1 million in non-registered, dividend-paying securities.

However, the article is a good reminder of one of the benefits of dividends generated from equities or funds. Eligible dividends are taxed at a lower rate in a non-registered account, compared to interest and ordinary income, since this type of dividend income benefits from the federal (and provincial) dividend tax credit.

It is also worthwhile to remember that dividends can play a significant role in generating longer-term returns for investors. Dividends have consistently and significantly contributed to total returns over time. This is evident when comparing the S&P/TSX Composite index returns to total returns including reinvested dividends over the past 30 years (see graph). Dividend income can also help deliver consistent cash flow to investors, especially when finding income has become difficult in a low-interest rate environment. And many quality corporations continue to increase their dividends to investors over time.

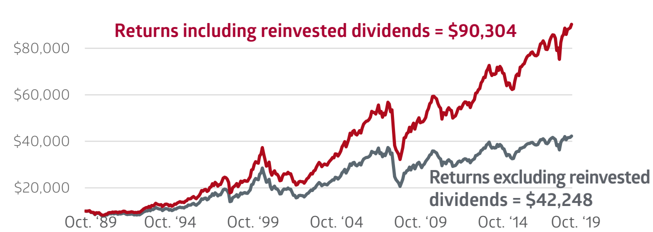
Amount of Eligible Dividends That Can Be Received Tax Free: 2019

PROVINCE	TAX-FREE AMOUNT	PROVINCE	TAX-FREE AMOUNT
BC	$52,069	QC	$39,492
AB	$52,069	NB	$52,069
SK	$52,069	NS	$32,405
MB	$25,584	PE	$47,130
ON	$52,069	NL	$18,497

Source: KPMG Tax Facts 2019/2020, page 48. As of August 2019.

In short, we continue to advocate the benefits of quality, dividend-paying securities to supporting our investing programs.

Growth of $10,000 Invested in S&P/TSX Composite: 30 Years



1. "How to earn $52,000 tax free", Globe & Mail, 8/9/19. This article is intended to provide general information and should not be construed as tax advice.

RRSP SEASON: OVER $963 BILLION OUTSTANDING

Over $963 billion: At last count, that's how much that was reported by Statistics Canada as the total amount of unused Registered Retirement Savings Plan (RRSP) contribution room carried forward by Canadian taxpayers.[1]

While unused contribution room may be carried forward indefinitely, and there may be good reasons to do so, don't forget about the forgone opportunity for tax-deferred, compounded growth.

Does any of that $963 billion of unused RRSP contribution room belong to you?

1. Statistics Canada website https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1110004501
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RRSP SEASON REMINDERS

Contribute — The deadline for RRSP contributions for the 2019 tax year is **Monday March 2, 2020**. Consider an automatic monthly contribution plan to avoid missing the deadline.

Consolidate — If you hold multiple RRSP accounts across different financial institutions, consider consolidating for improved administration, convenience and potential cost savings.

Collapse — If you are turning 71 years old in 2020, please get in touch to discuss options for your RRSP.

PROTECT YOURSELF AGAINST FRAUD

As technology has become ubiquitous, scams and fraudulent schemes continue to evolve in sophistication. While new scams are being developed on a regular basis, they often share certain red flags. Here are some common signs to be aware of:

It seems too good to be true. This may be as unassuming as an unexpected money transfer sent to your email address. Or, it may be as sophisticated as an investment opportunity that offers significant returns for little risk. If it appears too good to be true, it probably is.

Personal/financial information is requested. Be wary when personal or financial information is requested or asked to be confirmed. Often, a credible company or institution would not request this.

There is a sense of urgency. Many scams pressure individuals to act immediately or focus on harsh penalties to evoke fear.

You are made to feel guilty or there is secrecy. Some scams use feelings of shame or guilt to coerce victims. Or, you may be asked to keep matters secret or sign a confidentiality agreement.

Are there ways to better protect yourself? Here are some basic tips:

Don't respond. Do not answer your phone if you don't recognize the caller and don't respond to text messages from unknown numbers. Never open email attachments or reply to unsolicited emails. Never provide personal data to people you don't know.

Take time to validate the source. "Spoofing", when someone pretends to be someone they aren't, is not just an online threat and can happen via phone or SMS/text. There may be subtle indications that a source is fake: a message/caller doesn't address you directly ("dear customer" or "hi ma'am"), or an email/text contains spelling/grammar errors. Don't be afraid to ask a caller for identification and call the source back using a phone number found on an official website. For online purchases/services, an internet search may help to determine if a source is trustworthy or if others have been similarly targeted.

Shred paper documents. Limit/disguise personal data online. Fraudsters have traditionally obtained personal data from discarded documents that weren't shredded. Today, a significant amount of personal data can be found online. Limit or consider disguising what

is shared on social media or other sites. Avoid linking online accounts to one another, to limit potential damage in the event that one account becomes compromised.

Support loved ones. Talk to higher-risk individuals, such as children or seniors, about how they can be more secure. Make sure they are aware of new and evolving scams.

Contact appropriate authorities. If you believe you are being targeted, notify the appropriate authorities, including your financial institution, credit bureau (Equifax or TransUnion), the Better Business Bureau, or Canadian Anti-Fraud Centre.

TOP SCAMS AFFECTING CANADIANS

Romance Scams ($22M) — Victims are seduced by fabricated personas and convinced to send funds.

Income-Tax Extortion Scams ($15.2M) — Individuals claiming to be from the Canada Revenue Agency demand money for taxes owed.

Employment Scams ($4.5M) — People posing as legitimate recruiters take funds from jobseekers.

Online Purchase Scams ($3.5M) — Fake websites offer counterfeit or non-existent goods/services.

Bank Investigator Scams ($2M) — Callers steal a person's credit card details by asking to verify them as part of an investigation of fraudulent activity.

Source: Better Business Bureau Canada. 2018 latest published figures.

HOW OFTEN ARE YOU CHECKING YOUR INVESTMENTS?

Technology continues to change the speed at which we process information. According to one estimate, it takes just 1.8 seconds for subscribers to consider each movie or TV program title they encounter.[1] Studies have shown that online shoppers are more likely to make a purchase if they can retrieve product information more quickly. It was reported that for every 100 millisecond improvement in load time, Walmart experienced up to a 1% increase in online revenue.[2]

At the same time, we've conditioned ourselves to seek information more quickly. In investing, we can rapidly access our portfolios online to check performance. This often doesn't take much longer than selecting a show on Netflix.

However, frequent checking of investment performance may not provide the right feedback. The problem? The information we receive about short-term performance isn't usually indicative of what will happen over the longer term. By checking market performance more frequently (for example, daily versus monthly), you increase the likelihood that you will see downward movements.

S&P/TSX Composite Returns: Oct. 1984 to 2019

TIME FRAME	POSITIVE	NEGATIVE
Daily	54%	46%
Quarterly	64%	36%
One Year (Annually)	71%	29%
Every 3 Years	91%	9%
Every 5 Years	100%	0%

Source: S&P/TSX Composite Index Returns 10/01/84 to 10/29/19.

Two investors who experience the same investment performance could have vastly different perspectives based on the frequency with which they access information. Checking the S&P/TSX Composite Index on a daily basis, instead of quarterly, would increase the odds of seeing a negative result by 10 percentage points (chart above).

While some of us may have the mental fortitude to prevent negative performance from affecting our mood, the reality is that many of us do not. When focusing on short-term performance, it is also easy to overlook the realities of longer-term investing:

1. Volatility is a normal part of equity markets. Consider that since 1970, around 60% of annual TSX Composite returns have been either greater than 20% or negative. Yet, the market had an annualized return of around 6% over this time. Simply put, there is a high likelihood of large movements in market returns, but this volatility smooths out over time. However, in order to potentially be rewarded with the higher returns historically offered by equity markets, investors must be willing to accept the inherently volatile nature of the markets.

2. Different investments (across varying geographies or industries), asset classes, or even investment accounts (based on asset location) may perform differently over time. A well-structured portfolio uses techniques such as asset allocation and diversification to help minimize risk by investing across areas that react differently to changes in the markets.

3. Markets and economies are cyclical by nature. Long-term investors will experience both ups and downs; a solid wealth plan builds in this expectation over time.

While it is easy to access market and investment performance, checking over less frequent intervals not only increases the odds of seeing something positive, but it also better aligns with the investment process. After all, the objective for many investors is not to liquidate investments today or tomorrow, but instead to maximize returns over the longer run.

1. https://www.fastcompany.com/90309682/heres-what-happened-when-i-watched-everything-netflix-told-me-to-for-2-weeks; 2. https://www.forbes.com/sites/jiawertz/2017/03/17/how-to-compete-for-consumers-online-while-attention-spans-diminish/#1a4f97366679;

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