Second Quarter 2020

BOYCHUK KNOBLAUCH
FINANCIAL GROUP

To Our Clients:

Over the past few weeks, the events surrounding the spread of the coronavirus have been very unsettling to many. The response continues to be unprecedented on many fronts — from the global containment efforts to the effects on the financial markets.

During these difficult times, we must remember that this, too, shall eventually pass. We will continue to monitor the situation as things evolve.

If you have concerns, please call.

— Tyson and Dean

In This Issue: Page

PERSPECTIVES FOR THESE UNCERTAIN TIMES

Over recent months, the world has been caught off guard by the spread of the coronavirus. As we continue to grapple with the potential implications and uncertainties, this reminds us of the possibility of "black swan" events — unpredictable occurrences that have major consequences.

Today's situation has been heightened by the reality that we are much more connected than in the past — this being perhaps the first major global health event of the social media age. This has likely supported some extreme reactions we have seen in the markets, including the response to a notable drop in oil prices due to a price war between OPEC members, which resulted in unprecedented volatility.

During these challenging times, we shouldn't lose sight of the fact that the situation is expected to eventually be resolved. While there will undoubtedly be shorter-term economic effects, global policy makers continue to take action to support economies for the near term. In the U.S., the Federal Reserve recently announced an emergency rate cut. The Bank of Canada followed suit, and central banks globally have continued their stimulus efforts.

It may also be worth remembering that significant negative market events have emerged from time to time and yet the financial markets have pushed forward. Award-winning finance columnist Morgan Housel shows that over the past 30 years, these events may be more common than we recall (below). Despite their frequency, the S&P/TSX Composite Index still gained over 800 percent during this time.[1]

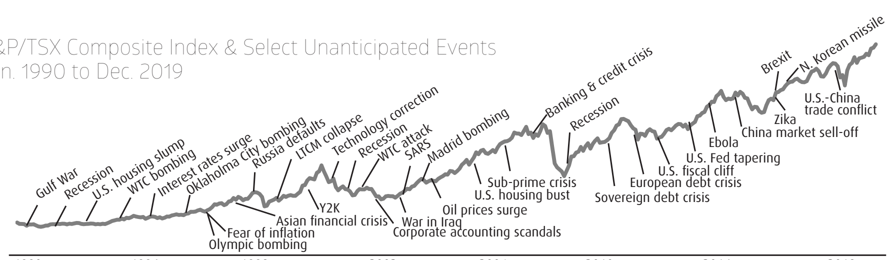
As individual investors, we have little control over how the markets react to unpredictable events. Understandably, the prevailing view may be one of worry and we may feel the urge to take action. Yet, for the longer-term investor, patience is often most rewarded.

Even in the most difficult of situations, we have persevered and progressed. In spite of these setbacks, economies have continued to advance over time. This time is likely no different. As Housel reminds us: "The takeaway isn't that the market is safe. It's that bad news almost never supersedes the power of true patience."

If friends or relatives could use some reassurance during these times, we would be happy to provide our perspectives.

1. Motley Fool, 07/29/16, adapted with permission; Total Returns.

S&P/TSX Composite Index & Select Unanticipated Events
Jan. 1990 to Dec. 2019



ESTATE PLANNING: CHOOSING ONE EXECUTOR

If you have children and are planning your estate, chances are you have considered appointing them as your estate executor. As you are able to name more than one person to serve as estate executor, in some instances parents name multiple children to act as joint-executors. The reasons are many: they want to treat children equally; they don't want to hurt feelings; and, by including all children, it helps to share in the administrative effort.

While the motives are understandable, naming more than one estate executor has the potential to cause more harm than good. Here are three reasons why you may wish to exercise caution:

No executor generally has the legal right to act alone.[1] If multiple executors are named to act jointly, they must work together and will be jointly held responsible for the estate. Each is considered to have equal legal authority. Because co-executors must generally agree and act together, there may be delays to the settlement of the estate in order to reach agreement.

Potential for disagreement. Reaching consensus in any group can be difficult, but things are further complicated when emotion or money is involved. Even the most agreeable of siblings can experience differing views and there are plenty of decisions that need to be made, which may include choices about dividing sentimental items or large financial decisions such as determining the selling price of a home. Disputes have been known to cause years of resentment — perhaps the exact situation you were trying to avoid by appointing multiple executors.

Scheduling can be difficult. Acting in unison can be challenging. Co-executors are generally required to perform their duties as one, which

includes activities such as signing all of the documents relating to the estate. The process may be further complicated if executors live in different locations as it may be difficult to coordinate meetings with lawyers or financial institutions.

Instead of naming co-executors, there may be other alternatives. One child could be named as executor and the other as the alternate, in the event that the primary executor is unable or unwilling to fill the role. If one child lives closer than the other, this could be the determining factor to avoid the appearance of favouritism. If a co-executor arrangement is still preferred, consider including dispute resolution language in the will. Or, it may be money well spent to consider a corporate executor to act in the role. This may take the burden off of loved ones during a difficult time.

Regardless, it may be helpful to have a discussion with your children while you are alive to prevent future surprises. It may help them to understand the rationale behind your decision, which can go a long way in preserving harmony once you are gone.

1. This may not apply in the case where the will provides dispute resolution mechanisms.

SAVING TAX IS A YEAR-ROUND EXERCISE

Spring is the time when taxes are top of mind as personal income tax returns are due. Did you take action to reduce your tax bill in 2019? Perhaps you can do better this year. Here are four ways to help minimize payables to the Canada Revenue Agency (CRA).

"Reduce" Your Refund — If you receive a tax refund from the CRA on a regular basis, this shouldn't be a cause for celebration. You're effectively providing an interest-free loan to the government. If you have an employer, consider updating Form TD1, which is used to calculate how much tax to deduct from your pay cheque. If you will have significant deductions in a given year, file CRA Form T1213 to reduce the tax taken from your pay.

Maximize the RRSP & TFSA — Consider setting up a monthly RRSP contribution plan. By providing an employer with confirmation of the deductibility of contributions, it may reduce the amount of tax withheld at source. While TFSA contributions won't impact your 2020 tax bill, don't underestimate the future value of tax-free compounded growth (see pg. 3).

Split Income with Your Spouse — If your spouse (common-law partner) is in a lower tax bracket than you, consider income-splitting opportunities. Contribute to a spousal RRSP. There may be an opportunity to split investment income through a prescribed rate loan strategy with a spouse. Seniors may consider splitting Canada Pension Plan benefits or eligible pension income.

2019 TAX FILING REMINDERS

Sold a home? If you sold property in 2019, and in order to claim the Principal Residence Exemption, it must be reported on an income tax return. The CRA continues to crack down on tax compliance for real estate transactions.

Held foreign assets? If you held "specified foreign property" (SFP) with a total cost in excess of CA$100,000 (outside of a TFSA, RRSP, RRIF) at any time in 2019, you are required to file form T1135. For a full list of assets considered to be SFP, see the CRA website.

Optimize Asset Location — Different types of income (i.e., interest, dividends, capital gains) may be taxed differently depending on the type of account from which income is generated. For example, dividends paid on foreign investments held in a non-registered account may receive a foreign tax credit to help reduce or eliminate foreign withholding taxes. If this same asset is held in a TFSA, no foreign tax credit is available. Having a comprehensive view of your assets may identify opportunities to optimize asset location across different accounts.

Seek the advice of a tax professional regarding your personal situation and call with any questions.

THE TFSA: DON'T OVERLOOK THE OPPORTUNITY

Have you fully contributed to your Tax-Free Savings Account (TFSA)? The latest statistics show that the average TFSA holder has a significant amount of unused contribution room — around 60 percent of available contribution room remains unused.[1] With cumulative eligible contribution room now at $69,500,[2] the TFSA has the potential to be a compelling component of your retirement nest egg.

How compelling? Consider an investor who maximized annual TFSA contributions since 2009. With no further contributions, in 30 years, the investor would have over $400,000 — at an assumed 5 percent rate of return per annum (see table). Most important: any income earned will not be subject to tax.

What Is Your TFSA Strategy?

Don't overlook the opportunity to grow investments on a tax-free basis within a TFSA. When the TFSA was first introduced, many individuals held cash or low-risk, interest-bearing investments inside the plan — possibly because it was introduced as a "savings account". However, this approach forgoes the opportunity for longer-term, compounded, tax-free growth over time, which can be significant. As such, longer-term investors may be better served by using their TFSA as part of their investment strategy.

Use the TFSA to Your Retirement Advantage

The flexibility of tax-free withdrawals — no limitations on timing or amounts to be withdrawn, and the ability to recontribute withdrawn amounts[3] — can make the TFSA a savvy retirement planning tool.

Here are some of the potential opportunities:

- Preserve income-tested benefits or tax credits;
- Reduce taxable income in retirement;
- Supplement income to allow for the deferral of CPP/QPP benefits, potentially maximizing their value;
- Permit continued investment growth (beyond the age of 71, the age in which the RRSP must be collapsed) on a tax-free basis.

DON'T OVERLOOK THE TFSA GROWTH POTENTIAL*

	Full contribution to 2020; No further contributions	Full contribution to 2020; Continued annual contributions of $6,000
In 20 years	$253,880	$462,196
In 30 years	$413,545	$832,109
In 40 years	$673,620	$1,434,659

*At a 5% compounded annual rate of return since TFSA inception in 2009. Assumes full annual dollar amount was contributed since 2009 at start of year.

A Valuable Estate Planning Tool

The TFSA can be a valuable estate planning tool. Consider that the value of TFSA assets at the time of a holder's death can be transferred tax free to beneficiaries. In provinces other than Quebec, if the TFSA does not pass through the estate, no probate will be payable in provinces where applicable. Most important, if a surviving spouse is named as "successor holder", the TFSA can continue to be operated by the spouse on a tax-free basis.[4] Please call for a review/update of TFSA beneficiary designations.

Are you making the best of your TFSA?

1. advisor.ca/tax/tax-news/average-unused-tfsa-room-rises-12-year-over-year/; 2. For those eligible since 2009; 3. Contribution room will be available starting in the next calendar year; 4. Based on their own contribution room. Any income earned after the holder's death will continue to be sheltered from tax. Not in Quebec, where designations are not named in the plan.

ARE FUNDS OWED TO YOU? $888M REMAINS UNCLAIMED

Over $888 million of Canadian bank-related funds remain unclaimed: does any of that belong to you?[1] This includes Canadian-dollar deposited or negotiable instruments, such as GICs, term deposits, bank drafts or money orders where there has been no activity for 10 years and the owner cannot be contacted by the holding financial institution. The Bank of Canada acts as a custodian on behalf of the owner of the unclaimed balance and holds the balance for 30 years after a 10-year period of inactivity.

To search for an unclaimed balance to which you may be entitled, please see: http://www.bankofcanada.ca/unclaimed-balances/

DOES THE CRA OWE FUNDS TO YOU?

Consider also that, as a taxpayer, you may have funds owed to you by the Canada Revenue Agency (CRA) for cheques that have been issued but not cashed. "Uncashed cheques" can be found in your CRA account. Once you log in, a web-link is located on the bottom of the "related services" section on the right side of your account. Please see: https://www.canada.ca/en/revenue-agency/services/e-services/e-services-individuals/account-individuals.html

Such a large amount of unclaimed balances demonstrates that it may be easier than we think to lose track of funds. Financial accounts may be neglected over time, especially if a recipient moves or changes employers. This brings up the importance of keeping good records to ensure all of your assets are in check. Consolidating assets may also be beneficial, so that funds are not forgotten, and we may be able to assist with this.

1. At the end of 2019.

VISIBILITY OVER YOUR CASH FLOW

Regardless of your life stage or income level, creating a personal cash flow statement can be a valuable exercise. In a basic sense, it is a snapshot of your sources of income, as well as what you're spending and saving.

Do you know how much you spent in 2019? Or, how much was spent on each type of expenditure? Although many of us have good visibility over our income, we may not have a clear picture of where funds are going. As a starting point, creating a visual map of your expenses can be an eye-opening experience. A good place to start? Use credit card bills, banking statements and other records to create a snapshot of your expenses last year, including everything from clothing to income taxes, by categorizing them into essential and non-essential expenses (inset).

HOW MUCH DO YOU SPEND IN EACH CATEGORY?

Essentials

- Housing — rent, property tax, mortgage payments
- Transportation — car payments, insurance, gas, public transit, parking, maintenance
- Food — grocery, work lunches
- Utilities — water, electricity, gas, cable, internet, phone
- Insurance
- Medical expenses
- Taxes
- Other — one-time home maintenance, etc.

Non-essentials

- Lifestyle — subscriptions, memberships, clothing
- Recreation & Entertainment — sports, travel, hobbies, eating out
- Other

You may discover that your expenses aren't exactly what you thought. Understanding where your funds are going can help you plan and think proactively about how to use future funds and balance different spending priorities. For spouses, it can help provide congruency over spending decisions. This exercise may also play an important part in planning for the future or preparing for retirement. After all, it is difficult to determine how much money may be needed later in life without having an understanding of how much is being spent today.

Valuable for High-Net-Worth Individuals

While high-net-worth individuals often have ample funds to support their spending habits (it is often not a question of affordability!), dissecting your expenses can prompt other questions: What is the right amount to spend on non-essential expenses? How can spending decisions be communicated within the family?

For some families, it helps to form the basis for a discussion about intergenerational wealth preservation. A potential concern may be that subsequent generations will fritter funds away. Having good spending habits can send a positive message to future heirs and teach them about maintaining wealth. It may also generate a conversation about where to designate unallocated funds. For instance, this may include philanthropic or charitable initiatives.

Equally Important for Retirees

Since many retirees are constrained by fixed incomes, a clearer picture of current spending habits can be beneficial. It may help determine whether retirement plans are on track or if adjustments need to be made. For example, small modifications to spending habits may be required, or there may be a need for larger changes such as downsizing a home, or using insurance to help generate cash flow. This may be especially important when planning ahead for unpredictable risks, such as an economic recession or a market downturn.

Two Things We Control: Spending and Saving

As investors, we often have little control over the direction of equity markets, company performance, or even economic growth. However, what we do control is the amount we spend and save, which can significantly impact our future wealth. If you need support, we have a variety of budgeting and cash flow tools available — please get in touch.

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