



## INVESTING TAKES “GRIT”

**Grit**/'grit/ (noun): 1. Firmness of mind; strength of character



For those of us who follow the markets and the news on a regular basis, the current bull market run has taught us one thing about investing: it takes grit. Often dubbed “the most hated bull market of all time”, for many years now the media has been claiming that equity markets have reached their peak. But think about just how much opportunity would have been missed if you had followed the underlying pessimistic narrative over recent years.

Angela Duckworth, a psychologist known for her extensive research on grit, has determined that grit is one of the strongest predictors of long-term success — equally as important as IQ or socioeconomic status. “Grit,” she has said, “is about having the same top level goal for a very long time and sticking to it.”<sup>1</sup> And this has much relevance when it comes to investing.

### THE NEW NORMAL: GLOBAL TRADE TENSIONS

Given the extended bull market run, it seems as though every global event is analyzed for its potential negative effect on the markets. A major shift in global trade is today’s prevailing theme, as the U.S. continues to impose tariffs on the rest of the world. Over the summer, here at home, Canada was sidelined in NAFTA negotiations and continued to experience setbacks with the Trans Mountain pipeline project. And it didn’t end here. Relations between Canada and Saudi Arabia became strained, Italy’s debt issues were complicated by new political changes and Turkey was the latest country to suffer from a currency and debt crisis — all of which kept investors on edge.

Yet, we often underestimate our ability to adapt. The root of most pessimism is the failure to recognize that markets and economies will adjust and move forward from these setbacks. Some of us are better than others in putting the worries about short-term events aside and working resolutely towards our personal goals. What is the secret to maintaining this grit in investing?

First, savvy investors have a plan in place. This is the road map that will lead them to where they want to go. Portfolios are created with personal objectives in mind, to meet an investor’s needs over the longer term. Each element has been selected to serve a purpose, through both up and down markets.

Second, they focus less on short-term news and more on end goals. Many investing mistakes come from trying to run a marathon in an hour. In good times, this means maintaining a realistic approach to returns and not chasing strong market performance. In bad times, it often means tuning out the noise and continuing to save and invest.

Third, and most importantly, they stick to the plan. While setbacks may sometimes happen too quickly to ignore, they recognize that progress sometimes happens too slowly to notice. Investing may be compared to planting trees — a month’s progress may show nothing; a few years’ progress may show a little; but long-term progress often creates something magnificent.

Investing effectively in good times and in bad is something we can all do well. And it can start with a little “grit”.

1. “Grit: The Power of Passion and Perseverance”, Angela Duckworth, Schribner, 2016, p. 64.

### Speaking Personally:

Autumn is the season of change. For some families, a youngster may be starting school for the first time or older students may be heading back to college or university. For individuals, it may be starting a new job or business venture. Each change can have implications to consider in the context of your investment strategy and wealth plan.

If your personal situation has recently changed, it may be worthwhile to have a discussion. Or, perhaps you have a family member who would benefit from our assistance. We would be happy to provide our support.

Have a wonderful fall.

---

### In This Issue:

	Page
Year-End Tax-Planning Checklist	2
Estate Planning for Digital Assets	2
Offsetting Capital Gains	3
The Bulls and the Bears	4

---

# YEAR-END TAX-PLANNING CHECKLIST

Don't look now, but the end of 2018 is quickly approaching! As such, now may be a good time to consider taking certain actions before year end to save on your 2018 taxes. Here are some ideas:

✔ **Split income, save tax!** Review your family's potential tax bill to determine if income-splitting opportunities exist. In general, this may potentially be achieved by paying reasonable salaries to a spouse/children for services provided to your self-employed business/private company, by electing to split eligible pension income with a spouse on your tax return, or through a loan at the prescribed interest rate, where proceeds are used for investment by a spouse.

✔ **Contribute to your RRSP.** While you still have until 60 days after the calendar year to make a contribution to impact 2018 taxes, don't wait until the last moment. Take the time to consider whether to make an RRSP contribution as a spousal or personal contribution.

✔ **Make RESP contributions.** If you have a Registered Education Savings Plan (RESP), consider making a contribution before year end. While this won't save current tax, you may potentially benefit from the Canada Education Savings Grant (CESG) for 2018.

✔ **Don't forget the pension income tax credit (on up to \$2,000 of eligible pension income).** If you're 65 years old or older and don't have eligible pension income (does not include Canada/Quebec Pension

Plan or Old Age Security benefits), consider purchasing an annuity or opening a small Registered Retirement Income Fund (RRIF) to claim the federal pension income tax credit. Eligible pension income may also be split with a spouse on a tax return.

✔ **Consider charitable donations.** Make eligible charitable donations before Dec. 31<sup>st</sup> to benefit your 2018 taxes. Gifting publicly-traded securities with accrued capital gains to a registered charity not only entitles you to a tax receipt for its fair market value, but also eliminates the associated capital gains tax.

✔ **Convert your RRSP if you turned 71 in 2018.** If you turned 71 years old this year, you will need to collapse your RRSP. Please get in touch to discuss the options available to you.

✔ **Realize capital losses to offset capital gains.** In order for a loss to be available in 2018, the settlement must take place this year, so plan ahead. Be aware of the superficial loss rules (see the article on the next page for things to remember).

Tax planning continues to be an important part of investing. Many of these actions may require planning, so don't leave things until too late. Please call or seek advice from a tax professional.

This article is intended to provide general information only and should not be construed as specific tax or legal advice. As always, we recommend consulting your personal legal and tax advisors to understand the implications for your particular situation.

## ESTATE PLANNING: DON'T OVERLOOK DIGITAL ASSETS

The earliest cryptocurrency transaction is believed to have occurred eight years ago when a computer programmer traded 10,000 bitcoins for two large pizzas.<sup>1</sup> Back then, these bitcoins were only worth around US\$40; today, they would be worth over US\$73 million!<sup>2</sup>

Since that time, the rise in value and popularity of cryptocurrencies has added a new dimension to a question that has been complicating the estate-planning process: what happens to your digital assets when you die? Cryptocurrencies are only part of the story. With more time spent online, our digital footprints have expanded to include other digital assets. Yet these are rarely addressed in wills, often leaving family members to navigate a complex web of online accounts.

It is important to consider the way these assets are eventually transferred, not just for their monetary value. Some assets contain personal information that can be used by fraudsters to target the deceased or, worse, relatives who may be vulnerable during a difficult time. Assets may also have sentimental value: social media accounts containing photos or videos may provide comfort to those left behind.

### HOW WILL YOU TRANSFER DIGITAL ASSETS?

**Make an inventory of digital assets.** Start with the digital devices you use, such as computers, smartphones or hard drives. Think about your activity on each device, including email, social media and financial accounts or websites you may own or operate. Consider what may have value in any form: monetary, informational or sentimental.

**Allow for access where permitted by terms of use.** Many accounts



can only be accessed with a password. For some assets, such as bitcoin, a forgotten password may mean significant losses. You may wish to keep a physical list of account names and passwords stored in a secure place. If you change passwords frequently, consider subscribing to a password manager that allows for transfer to an appointed individual upon death.

**Decide what to do with assets.** Create instructions outlining your plans for your assets. Will assets need to be transferred to a beneficiary? Which accounts will need to be closed?

**Ensure assets can be passed on.** If applicable, write a provision into your will allowing your executor to access and manage your digital accounts according to your wishes.

Your digital assets may be worthy of protection and making decisions in advance is one of the best ways to ensure that they are passed along in the manner you intend. After all, what may be worth two pizzas today could be worth far more in the future.  
1. <http://fortune.com/2018/02/26/laszlo-hanyecz-pizza-bitcoin/>; 2. BTC at 8/3/2018. This article is intended to provide general information and should not be construed as specific legal advice. Please consult legal advisors for your particular situation.

# OFFSETTING CAPITAL GAINS THROUGH TAX LOSS SELLING

Given the extended bull market run, some investors may consider realizing gains to rebalance their portfolios. As capital gains are subject to tax, one of the more common ways to offset this tax is to use available capital losses. Here is a reminder on how using losses to offset capital gains may be an opportunity from a tax perspective.

In general, when you sell an investment you must calculate the gain or loss, which is the difference between the proceeds from the sale and the adjusted cost base. For tax purposes, the taxable capital gain (or net capital loss) is 50% of the total capital gains (or losses). A net capital loss cannot be used to offset other income in the current year. It may be carried back to one or more of the last three taxation years to recover capital gains taxes previously paid and/or carried forward indefinitely to reduce these taxes in the future.

## DON'T FORGET THE SUPERFICIAL LOSS RULES

When claiming a capital loss, be mindful of the superficial loss rules. In general, these rules will disallow a capital loss if property is repurchased within 30 days before/after the sale date and is still held on the 30<sup>th</sup> day after sale by you or an "affiliated person". This includes a spouse/partner, a corporation controlled by you or a spouse/partner, or a trust of which you or a spouse/partner are a majority beneficiary (such as your RRSP or TFSA). Under the rules, your capital loss will be denied and added to the adjusted cost base (tax cost) of the repurchased security. This means any benefit of the capital loss could only be obtained when the repurchased security is ultimately sold. A loss will also be denied when transferring securities in a loss position from non-registered to registered accounts.

## CONSIDER TRANSFERRING LOSSES TO A SPOUSE

There may be an opportunity to transfer capital losses to a spouse/partner, such as to offset a spouse's realized capital gains. Or, a



spouse may be in a higher tax bracket and your capital losses would provide a larger tax benefit in their hands. This involves using the seemingly problematic superficial loss rules to your advantage. For example, you could sell your loss securities, and your spouse could purchase the same security at fair market value. Your spouse would hold the securities for at least 30 days and then sell them. To ensure that this is done correctly, we recommend consulting a tax advisor.

## OTHER CONSIDERATIONS

Given today's weaker Canadian dollar, don't forget the effects of currency fluctuations on securities purchased in a foreign currency. A gain or loss may be larger or smaller than anticipated once the transaction is converted into Canadian dollars. Take, for example, a security purchased at US\$100 in 2012 when the U.S. and Canadian dollars were at par. If it had fallen in price to US\$80 and you were to sell 100 shares of the security, the capital loss would be US\$2,000. However, if the exchange rate at the time of sale was US\$1 = C\$1.32, selling the shares for US\$8,000 would yield C\$10,560, which results in a capital gain of C\$560.

This is intended to provide general information and should not be construed as specific tax advice. Please consult tax advisors for your particular situation.

# CURRENCIES IN CRISIS: WHO WANTS TO BE A TRILLIONAIRE?

If you have been paying attention to global currency markets as of late, you may be following the Turkish lira — the latest global currency to succumb to a significant devaluation. By August, the lira had lost over one third of its value since the start of the year.

Turkey suffers from significant national debt and rising loan defaults and the government has been criticized for encouraging growth over fighting inflation. In the summer, it was reported that Turkish inflation hovered around 16%.<sup>1</sup>

Turkey is among a host of other emerging nations dealing with currency problems. Argentina, suffering with hyperinflation, raised its key interest rate to 40% over the summer; Pakistan's central bank devalued the rupee for the fourth time since December.

But perhaps the most extreme case, in recent times, of currencies in crisis belongs to Zimbabwe. In 2009, Zimbabwe's inflation rate hit 230,000,000%. Prices were changing by the minute, but the country kept printing money. At the height of their economic problems, Zimbabwe issued a one hundred trillion dollar bill — the largest



denominated note ever to be circulated. When the Zimbabwe dollar was abandoned as the official currency in 2009, the hundred trillion dollar bill was only worth about US\$0.40.<sup>2</sup>

If you want to become an instant "trillionaire", you can buy this note on eBay. The irony is that it is worth more today than when it was in circulation: around US\$100, which represents a whopping "appreciation" of about 85% per year!

<sup>1</sup> <http://marketwatch.com/story/heres-why-there-may-be-more-pain-in-store-for-turkeys-lira-on-friday-2018-08-02>; <sup>2</sup> <http://cn.com/2016/05/06/africa/zimbabwe-trillion-dollar-note/index.html>

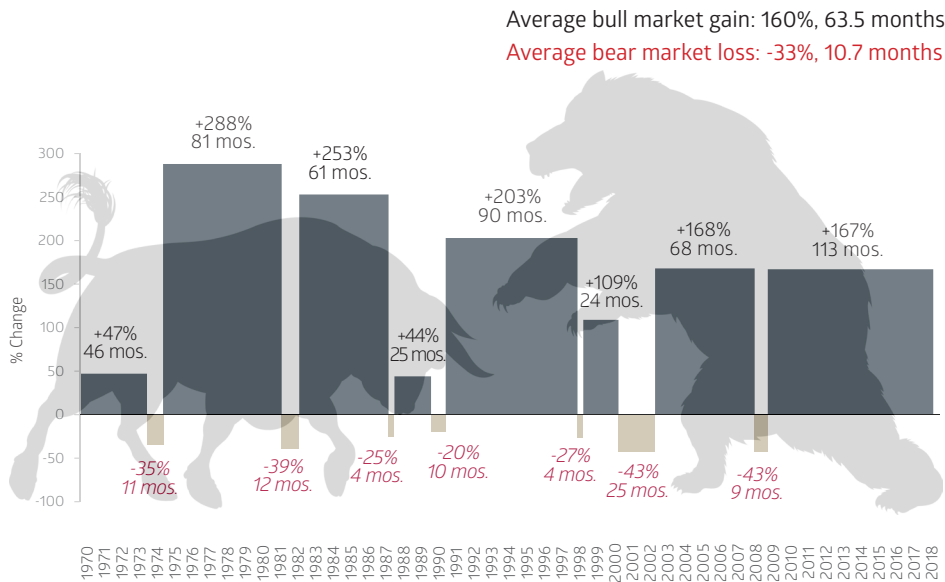
# THE BULLS AND THE BEARS...

Last quarter, the U.S. markets boasted a new record for the longest bull market in modern financial times. Canada's bull market has run equally as long, making it one of the longest in recent times — although there are differing accounts as to whether the late August anniversary made it the most lengthy bull market in Canada's history. A bull market is often defined as a market period in which stocks have increased by at least 20% over at least a two-month period. A bear market occurs when stocks have decreased by at least 20%.

Does this aging bull market still have legs to run? As history has shown, bull markets frequently outpace bear markets. Since 1970, as the chart below shows, the S&P/TSX Composite Index bull markets have averaged over 63 months, providing a more significant percentage change in value. Bear markets have been much shorter, averaging just over 10 months. But during these times, history has also shown that equity markets can quickly recover to reach new highs.

While equity markets are generally cyclical by nature, nobody can accurately predict when a bear market will take its place. Regardless, we continue to manage portfolios with the expectation that stock markets will experience both bull and bear markets. All good food for thought, as we continue to look forward.

**Bull and Bear Markets of the S&P/TSX Composite Index Since 1970**



Source: S&P/TSX Composite Total Return Index from January 1, 1970 to July 31, 2018.

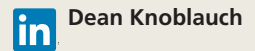
WITH THE COMPLIMENTS OF...

## Boychuk Knoblauch Financial Group

**Tyson C. Boychuk, CIM**  
First Vice-President  
Portfolio Manager  
Investment Advisor  
604.641.4394  
[tyson.boychuk@cibc.ca](mailto:tyson.boychuk@cibc.ca)



**Dean R. Knoblauch, CFA**  
First Vice-President  
Portfolio Manager  
Investment Advisor  
604.641.4386  
[dean.knoblauch@cibc.ca](mailto:dean.knoblauch@cibc.ca)



**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](http://www.BoychukKnoblauch.com)

This newsletter has been prepared on a contract basis for the Investment Advisor noted by J. Hirasawa & Associates. Opinions and comments may differ from those of CIBC World Markets Inc. and should not be considered representative of CIBC World Markets Inc.'s beliefs, opinions or recommendations. Contents copyright by the publishers and may not be reproduced without written permission. The information, including any opinion, is based on various sources believed to be reliable, but its accuracy cannot be guaranteed and is subject to change. Clients are advised to seek advice regarding their particular circumstances from their personal tax and legal advisors. If you are currently a CIBC Wood Gundy client, contact your Investment Advisor. "CIBC Private Wealth Management" consists of services provided by CIBC and certain of its subsidiaries, through CIBC Private Banking; CIBC Private Investment Counsel, a division of CIBC Asset Management Inc. ("CAM"); CIBC Trust Corporation; and CIBC Wood Gundy, a division of CIBC World Markets Inc. ("WMI"). CIBC Private Banking provides solutions from CIBC Investor Services Inc. ("ISI"). CAM and credit products, CIBC World Markets Inc. and ISI are both Members of the Canadian Investor Protection Fund and Investment Industry Regulatory Organization of Canada. CIBC Private Wealth Management services are available to qualified individuals. The CIBC logo and "CIBC Private Wealth Management" are registered trademarks of CIBC.