

The Broxterman Bulletin

Your quarterly financial planning newsletter

Summer 2022



Wealth Management
Dominion Securities



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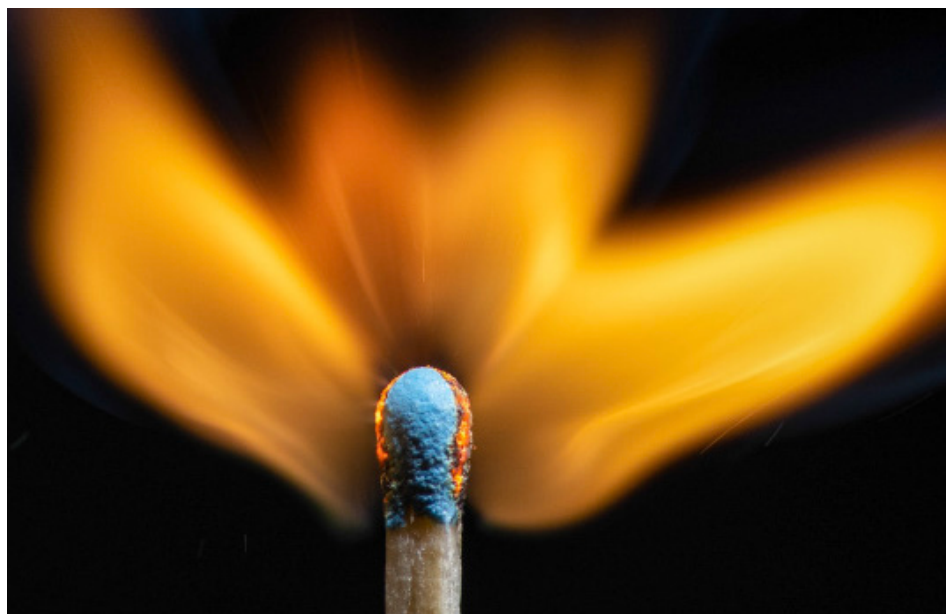
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Welcome and thank you

A warm welcome to the clients who have recently joined us and thank you to the clients who mentioned us.

We also want to thank our existing clients for your continued loyalty.

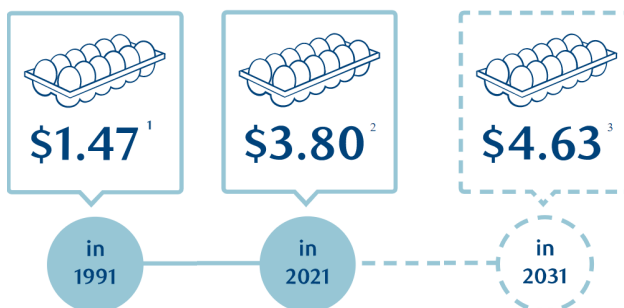


Inflation conflagration

Inflation has flared up – how it can affect investors

Inflation has risen sharply since 2020, largely due to explosive economic growth since the initial economic downturn following the onset of the COVID-19 pandemic. To add fuel to the inflationary fire, supply-chain issues are creating goods shortages that are persistently plaguing businesses trying to meet sharply increasing demand from consumers and businesses.

Cost of a dozen eggs over the years



1. Source: Statscan, Bank of Canada.

2. Source: Statscan, Bank of Canada.

3. Calculated using projected annual inflation of 2%

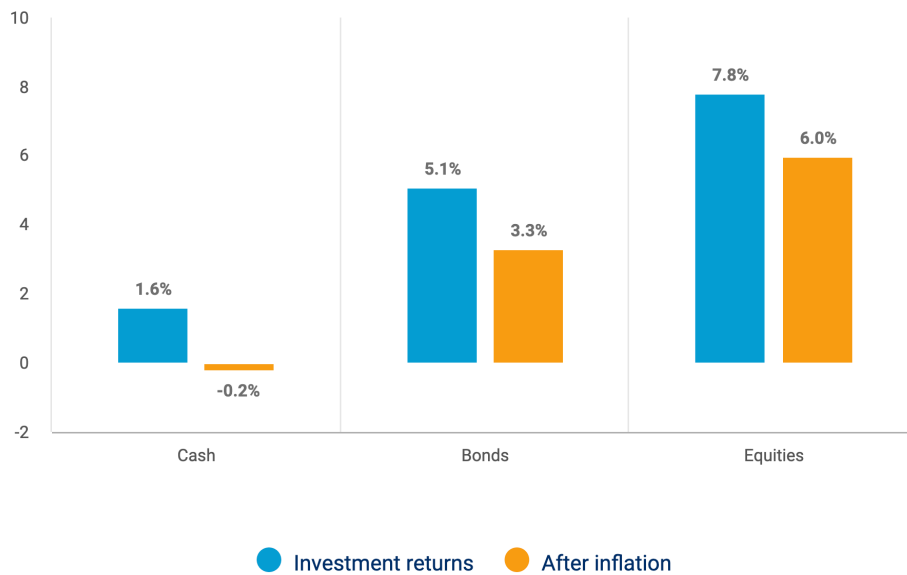
Recent data has shown that inflation rose sharply in 2021, reaching almost 5% in the final quarter of the year, a level not seen since the early 1990s. Understandably, rising prices are a serious concern for Canadians, as the cost of everything from gas to eggs to Internet services soars.

Inflation: The Great Deflator

Alongside inflation's impact on consumer prices is its impact on investors. Rising inflation will have different effects on different asset classes, but it generally tends to have a greater negative impact on fixed income and cash returns than equities, as follows:

Concerned about inflation and its impact on your portfolio? Talk to us today about how we can help you manage the latest inflation conflagration.

On a relative basis, inflation can have a bigger effect on cash



- Fixed income:** These investments generate “fixed” returns, so as inflation rises it erodes those fixed payments, eating up more and more of an investor’s after-inflation real return. The double negative for fixed-income investments is that, as inflation rises, central banks tend to raise interest rates, which often ripples through to the bond market, raising yields. As rates and yields rise, the price of fixed income products falls (prices and yields are inverse), resulting in an even more negative impact to investors. Despite inflation, fixed-income investments play an important role in managing risk within a diversified portfolio over the long term, particularly as they can provide stability in volatile markets. As well, different bonds respond differently to various market conditions, so a well-diversified, risk-appropriate fixed-income portfolio that takes advantage of the many options

available today, such as corporate bonds, can help mitigate the impact of rising interest rates.

- Equities:** Historically, inflation occurs when there’s strong consumer demand and business growth, which in turn drives up company revenue and profits, leading to generally positive equity returns. Equities (or stocks) of companies in financial, consumer staples and energy sectors often do particularly well during inflationary periods. The risk for equities is that central banks raise interest rates too sharply in their efforts to limit inflation, inadvertently triggering an economic downturn. However, RBC investment strategists currently view that risk as low, and forecast continued economic growth. And again, diversification is key with equities, as different types of equities do better in different economic environments.

*Source for returns: Morningstar Direct, RBC GAM. 20-year investment returns data as of June 28, 2021. For illustrative purposes only. Cash: FTSE Canada 30 day T-Bill Index. Bonds: FTSE Canada Universe Bond Index. Equities: S&P/TSX Composite TR Index. The indicated rates of return are the historical annual compounded total returns for the periods indicated including changes in unit value and reinvestment of all distributions. Index returns do not reflect deduction of expenses associated with investments. If such expenses were reflected, returns would be lower. An investment cannot be made directly in an index.

Source for inflation data: Bank of Canada for the average inflation figure of 1.8% (annualized) as of June 28, 2021. Inflation is approximated by the change in Consumer Price Index (CPI) each month.

Blind spots

Combatting cognitive biases when investing

Volatile markets can tempt investors to follow their primal instincts and veer from their investment plans. Here are three typical investor behavioural traits to watch out for, and three ways to avoid falling prey to them.

We Homo sapiens have developed our brains over tens of thousands of years, and those brains are ideally designed to help us survive in what were very often hostile environments. For example, our instinct to fit in with “the tribe,” which was essential to our survival 15,000 years ago, today can lead to “group think.” This instinct works against us when investing, prompting us to blindly follow the “herd mentality” versus what is rational appropriate given our investment goals.

It’s not easy to control these deeply instinctive emotions that drive our behavior and form cognitive biases, or “blind spots.” Ninety-eight per cent of investors exhibit at least one behavioural bias.¹ These biases can be helpful in our day-to-day lives, allowing us to use shortcuts and discern patterns that help us process information to make rapid decisions.² However, these same biases can lead us astray when it comes to investing.

Here are three common cognitive biases^{2,3} to watch out for as an investor, and some ways to help correct for them:

1. Recency bias

Putting too much weight on recent experiences over historic ones. This “myopia” can lead investors to over- or under-estimate the probability of an outcome.

How to correct for it: Get the “big picture” – for example, look at the market’s performance over the last 20 years versus the last 20 months. Recognizing that markets and investments evolve given changing circumstances over time



helps us maintain a long-term view, and encourages us to stick with our investment plans regardless of short-term volatility.

2. Loss aversion bias

Emotionally, humans suffer more from a loss than enjoy an equivalent gain. This can lead to prioritizing the avoidance of short-term losses over the potential for long-term investment gains. No one enjoys a loss, but short-term downturns in markets are an inevitable part of the investment journey. Losing sight of this can compromise your ability to achieve the risk-appropriate, long-term potential returns of investments such as equities.

How to correct for it: Ensure your investment plan aligns with your investment risk profile and capacity, and that the goals that underpin your plan truly reflect what matters to you. This can help keep you on track to your goals, and to prioritize the long term over the sometimes-unpleasant experiences generated by short-term volatility.

3. Familiarity bias

Investors are instinctively drawn to what is familiar to them, such as their own domestic equity market. This can lead them to overlook opportunities in foreign markets to diversify their portfolios – potentially enhancing returns and reducing risk.

How to correct for it: Review your asset mix to ensure you are properly diversified based on your investment risk profile. This can help overcome “home bias” and overly concentrated portfolios.

Talk to us about how we can help you avoid cognitive “blind spots” by building the right investment portfolio for you.

Sources:

1 “Who’s influenced by behavioural biases? Everyone.” Morningstar, 2021.

2 “How to avoid behavioural bias as an investor.” RBC Global Asset Management, 2021.

3 “The Evolving Role of Behavioral Finance in 2020.” Cerulli Associates, 2020.

Top five things to consider when choosing your executor



As “The Wealthy Barber” author David Chilton says, “There are two things that I won’t do, even when begged. I won’t help a friend move – too old to say yes to that. And I won’t be a friend’s executor.”

Given the complexities of the role, it’s easy to understand why. An executor, or liquidator in Quebec, is the person who administers a deceased’s estate based on the directions and wishes contained in their Will. While often seen as an honour, executorship comes with significant responsibility, emotional strain, and sometimes even legal exposure. Unfortunately, executors are often unprepared or ill-equipped to carry the burden of executorship. That’s why it is so important to thoughtfully consider the important characteristics and capabilities required of a successful executor.

Here are five characteristics to consider when choosing the right person to be your executor:

1. Objectivity

Given that the loss of a loved one can be a very emotional time, and family members can sometimes come to odds

over the assets of an estate, choosing someone who can remain objective, clear-headed and focused on the task at hand is important. Is the potential executor viewed as a neutral party in the eyes of beneficiaries? Are they emotionally stable and supportive? Are they able to navigate complex family dynamics? And, are they able to understand and communicate your wishes effectively?

2. Capability

Consider that your executor will need to undertake a variety of financial tasks, including but not limited to: assessing the value of assets (including potentially your business); filing tax returns; establishing trusts; managing investments; and dispersing the estate’s assets. Assessing your potential executor’s level of knowledge and comfort in these areas is an important step to picking the right person.

3. Jurisdiction

Consider whether your potential executor lives elsewhere, as that can have an important impact on their ability to navigate the estate settlement process and the laws and regulations of your

province, state or country. Also consider their network of expertise (e.g., real estate agents, bankers, wealth advisors), which may be excellent in Vancouver where they live, but non-existent in Toronto where you do. This can be an even more acute challenge if they live in a foreign jurisdiction.

4. Time

Consider the potential executor’s proximity to you, your assets and your jurisdiction: do they have the ability to travel to execute their duties? Is it realistic for them to travel from their home to wherever they need to be to execute their duties, and to remain there for an extended period or return often? Are their own circumstances, such as their work or family obligations, likely to prevent them from being able to reasonably execute their duties?

5. Age and health

It’s natural to want to appoint someone you know and trust as your executor. But also consider that if you pick a good friend or family member close in age to you, are they likely to outlive you? What’s their health like? If they are older or in failing health, they may not be the right choice.

To learn more about estate planning and the responsibilities of executorship, speak to us.

Building your retirement paycheque

Planning around the “what, when and how” of your retirement income can help maximize your after-tax cash flow.

The silvering Maple Leaf

The ageing Canadian population cohort – those 65 years of age and older – is growing rapidly, reaching 5.9 million people in 2016, according to the latest census data from Statistics Canada (StatCan). That’s an increase from 4.9 million just five years earlier. More recent non-government data suggests that the number is now closer to seven million, and the group now represents nearly one in five Canadians.

With the vast majority of this cohort embracing retirement, generating income becomes increasingly important, and every dime matters. 58% of ageing Canadians’ income is derived from what StatCan refers to as “market income” – investments and pensions. The pension portion of that income – or 44% of the total – includes the Canada Pension Plan (CPP) and Old Age Security (OAS). How that income is taxed, and what ageing Canadians actually net after taxes – or their cash flow – is critically important to how they live in their golden years.

What: Sourcing your retirement income

The first step to ensuring you are maximizing your retirement income is to establish its sources, how much from each of these sources will be paid out to you over time.

Canadians’ key sources of retirement income include:

- **Government retirement benefits**, e.g., Old Age Security (OAS), the Canadian Pension Plan (CPP) or the Quebec Pension Plan (QPP), foreign government pension plans.
- **Employer pension plans**, e.g., company-administered defined-benefit (DB) and defined-contribution (DC) pension plans.

- **Registered retirement plans**, e.g., Registered Retirement Savings Plans (RRSPs), Registered Retirement Income Plans (RRIFs), Tax-Free Savings Accounts (TFSA).
- **Other personal savings and investments in non-registered accounts**, e.g., investments such as rental or income-producing properties.

When: Drawing your retirement income

The next step is to establish the best withdrawal structure from one’s various retirement income sources. Consider drawing from the least flexible sources of income first, allowing you increasing flexibility as you age, and a degree of control over minimizing taxes. Depending on your age, and individual situation, the following drawdown process can help minimize your tax bite, while generating the greatest flexibility to meet your evolving cash flow needs:

Drawing income in the right order to maximize tax efficiency

Age	Government benefits	>	Pensions	>	Distributions from non-registered accounts	>	RSP or capital from non-registered accounts*	>	TFSA				
60-71													
Age	Government benefits	>	Pensions	>	Locked-in accounts	>	Minimum RIF withdrawal	>	Distributions from non-registered accounts	>	RIF or capital from non-registered accounts*	>	TFSA
71+													

It’s important to keep in mind that there is no set order that’s right for everyone. The order you draw on your income sources can be important, so it’s best to consult with your advisor on what’s the best strategy for you.

How: Maximizing your retirement income

Here are just a few ideas to consider that may help enhance your after-tax retirement paycheque:

- You can start drawing on your CPP as early as age 60 and as late as age 70. If you are less concerned about cash flow in your early retirement years, consider drawing on your CPP later. Doing so can substantially increase your CPP payments.
- Assess when you can start receiving company pensions to maximize what you get, e.g. with employer Defined Benefit plans there is often a formula based on age or years of service where there may be an optimum time to start drawing.
- Consider leaving your registered funds to grow as long as possible to benefit from tax-deferred growth, i.e. waiting until you are 71 to convert your RRSP to a RRIF.

The “what, when and how” of building your retirement paycheque is important to maximizing your after-tax retirement income – and enjoying your retirement years. Talk to us about how we can help you build a personalized retirement income strategy that’s right for you.

Personal notes



Welcome Stephanie Mollica to the Broxterman Team! Stephanie and her daughter Anna



PJ and his family celebrating his brother's wedding



Carolyn and Mike with friends on the Western Brook Pond in NFLD



Liz and her family enjoying Lake Ontario



Tony at the Hoover Dam



Tony in Arizona with his BIG friend

Thank you for your ongoing loyalty to The Broxterman Group of RBC Dominion Securities. We would be pleased to provide a complimentary wealth management assessment or financial plan to any friend, family member or colleague you refer to us.



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