THE GREG UPSON WEALTH MANAGEMENT TEAM | RBC DOMINION SECURITIES INC.

UPSON'S UPDATE

WINTER 2024

DIVIDENDS AND YOUR PORTFOLIO: A SWEET "DOUBLE DOUBLE" DEAL FOR CANADIAN INVESTORS

Dividends paid from publicly listed companies have proven to be an important component to investors' success in growing their wealth over time. Investors can benefit from dividends' steady income, their portfolio-stabilizing affects in volatile times, and their tax efficiency when held in a non-registered portfolio – all of which make dividend-paying stocks attractive for investors.

From disappointment to hope — markets begin their recovery

Since their post-pandemic surges petered out in early 2022, global equity markets have tested the patience of investors with their high levels of volatility and almost two years of modest returns.

Central banks in Canada, the U.S., Great Britain and across Europe all seemed to share the view that inflation was receding enough to bring down rates in the coming months; and, to add to the suddenly rosy outlook, that key global economic engines like the U.S. would likely skirt a serious economic slowdown or, more importantly, a full out recession.

High interest rates and bond yields, coupled with worries over a slowing economy, took a toll on dividend-paying stocks over the last few years. As interest rates and bond yields rose through 2022 and 2023, dividend-paying stocks lost out on a comparative value basis with investors when compared to bonds and even GICs. As the latter two's yields and rates rose, investors bet that a bond or GIC was less risky than a dividend-paying stock but suddenly paid nearly as well.

Fast forward to today, and the situation is quickly improving for dividend-payers. As bond yields have come down significantly from their most recent highs and interest rates look set to follow as central banks begin to cut their trend-setting rates in the months ahead, this naturally reverses many of the things that have turned investors away from dividend-paying stocks. As well, an improving outlook for the North American economy sets up this type of investment for better days ahead.

The first "Double": key portfolio management benefits of dividend-paying stocks

If it makes sense based on your portfolio goals and your risk profile, dividend-paying stocks – and, importantly, companies that increase their dividend payments to shareholders consistently over time – can offer some excellent benefits:

Cont…

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SPECIAL POINTS OF INTEREST:

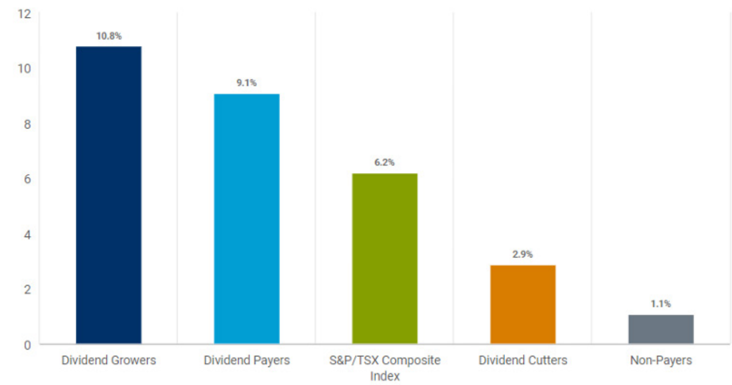
- *Dementia is estimated to affect over 600,000 Canadians. Knowing how to spot the early warning signs can be crucial in ensuring your loved ones' well-being.*
- *North American equity markets will move to a trade date +1 day settlement time starting at the end of May.*
- *Dividends paid from publicly listed companies have proven to be an important component to investors' success in growing their wealth over time.*

INSIDE THIS ISSUE:

1) Dividend-payers have outperformed the market over time: Dividend-paying stocks – and especially dividend growers – have historically offered better returns than the broader market, as companies that are able to pay dividends to their shareholders are usually financially strong and successful businesses with healthy earnings and cashflows.

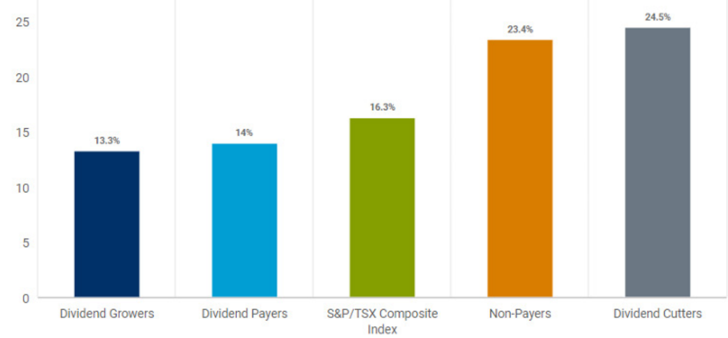
2) Dividend-payers have experienced less volatility over time: Dividend payouts can help make their stocks less susceptible to sharp price changes. This is primarily for two reasons: one, less of the return of a stock is dependent on price appreciation, as the regular flow of income (usually) on a quarterly basis provides a good portion of the total return of the stock; and, as per Point #1, companies that can afford to pay out dividends are usually ones that are cash rich and creating more in profits than the company can reasonably reinvest back into the company. This "signals" to investors that these companies are stable and in a strong financial position. Of note, over the last 50 years, dividends have represented fully one-third of the S&P/TSX Composite Index's return.

Compound annual total returns (1986 - 2022)



Source: RBC Capital Markets Quantitative Research, RBC GAM.[1]

Annualized volatility (1986 - 2022)



Source: RBC Capital Markets Quantitative Research, RBC GAM.[2]

The second "Double": Tax benefits of dividend-paying stocks

Beyond their notable investment and portfolio management benefits, dividends also have tax benefits for investors who may be holding stocks outside of a tax-sheltered plan such as a RRSP or a TFSA:

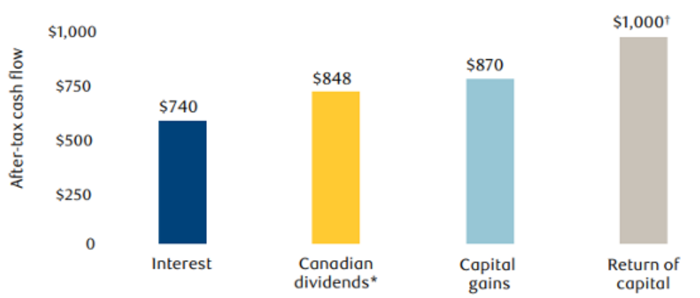
1) Effective tax investing: Individuals who receive eligible dividends from Canadian companies can claim the Dividend Tax Credit (DTC), a federal tax credit (a provincial dividend tax credit may also apply) to reflect the fact that the company paying the dividend has already paid Canadian tax on its profits. The DTC can significantly reduce the taxable amount of dividend income, a real boon for those seeking income and who are in higher tax brackets.

2) "Less tax? I'm in!": Because of the tax benefits associated with dividend-paying stocks, they are even further in demand by investors who require tax-effective income, especially retirees looking to create cashflow in their golden years. The benefit to this is that it tends to further contribute to stable stock performance over time, as investors seek the regular flow of dividends from their issuers and not just capital gains as provided by non-dividend payers, reducing the need to sell their positions to generate gains or to minimize losses – especially when volatility hits.

If you are looking to review the benefits offered by dividend-paying stocks for your portfolio, and it makes sense given your risk profile and goals, talk to us today – we can help.

- Greg

Net after tax cash flow on $1,000 of investment income



For the purposes of this example, a marginal federal tax rate of 26% is used. Please note that rates are unique to the tax circumstances of each individual and are provided herein for illustrative purposes only.
Source: RBC Capital Markets Quantitative Research, RBC GAM.[3]

Source: RBC Portfolio Advisor Newsletter– Winter 2024. RBC Portfolio Advisory Group. *Dividends and your portfolio: A sweet "double double" for your portfolio*. 1. Performance from October 1986 – December 2022. Equal Weighted Equity Only Total Return Indexes. Dividend Growers, Payers, Cutters and Non-Payers are determined annually. Growers had a positive 12-month change in dividends paid; Payers paid dividends; Cutters had a negative 12-month change in dividends paid; Non-payers did not pay a dividend. Source: RBC Capital Markets Quantitative Research, RBC GAM. An investment cannot be made directly into an index. The graph does not reflect transaction costs, investment management fees or taxes. If such costs and fees were reflected, returns would be lower. Past performance is not a guarantee of future results. [2] Performance from October 1986 – December 2022. Equal Weighted Equity Only Total Return Indexes. Source: RBC Capital Markets Quantitative Research, RBC GAM. An investment cannot be made directly into an index. The graph does not reflect transaction costs, investment management fees or taxes. If such costs and fees were reflected, returns would be lower. Past performance is not a guarantee of future results. Standard deviation is a commonly used measure of risk and is applied to the annual rate of return of an investment to measure the investment's volatility. Standard deviation shows how much the return on an investment is deviating from expected normal returns. A higher standard deviation indicates a greater variability in investment performance. 3. For the purposes of this example, a marginal federal tax rate of 26% is used. Please note that rates are unique to the tax circumstances of each individual and are provided herein for illustrative purposes only. In addition to the federal taxes noted in the example, provincial taxes are required to be paid. The amount of provincial taxes will vary according to province (provincial dividend tax credits also apple). When combined, the total of the federal and provincial taxes equals the taxes owing on taxable income. All figures are rounded to the nearest whole number. Tax rates are subject to change. *Represents eligible Canadian dividends with a federal tax credit of 15.02%. † ROC distributions are not generally taxable in the year they are received, but do lower your ACB, which could lead to a higher capital gain or a smaller capital loss when the investment is eventually sold.

2024 HANDY FINANCIAL PLANNING FACTS

TFSA	
Maximum annual contribution limits	$5,000 each year 2009 - 2012 $5,500 each year 2013 - 2014 $10,000 for 2015 $5,500 for 2016 - 2018 $6,000 for 2019 - 2022 $6,500 for 2023 $7,000 for 2024
Maximum contribution limit since inception	$95,000 from 2009 - 2024, if born in 1991 or earlier and resident of Canada during those years

RRSP/ RRIF	
RRSP maximum annual deduction limit	18% of the prior year's earned income to a maximum of: $31,560 for 2024 - deadline March 3, 2025 $30,780 for 2023 - deadline February 29, 2024

RESP - per beneficiary:	
Maximum contributions	Lifetime limit of $50,000. No annual limit. CESG grant issued is capped at $1,000/year
Maximum lifetime CESG limit	$7,200

CANADA PENSION PLAN - maximum amounts for CPP:	
Retirement benefit at age 65	$1,364.60/month
Post-retirement benefit at age 65	$44.46
Early retirement benefit at age 60 (36% max reduction or 0.6% per month)	$873.34/month
Deferred retirement benefit (42% max increase or 0.7% per month)	$1,937.73/month at age 70

Source: Canada Revenue Agency: https://www.canada.ca/en/services/taxes.html

Through loving eyes – how to spot the signs of dementia

The devastating effects of dementia are increasingly a reality for Canadians as our population ages. Alzheimer's, a prevalent form of dementia, and other types of the disease are estimated to affect more than 600,000 Canadian today, and recent estimates are now projecting that over 1.3 million of us will be suffering from dementia's devasting effects by 2030.

Sorting through the misconceptions

Spotting dementia in our loved ones can be tricky. We humans typically lose some of our cognitive capacity and memory over time as we age. What we might think are signs of dementia can be confused with illnesses such anxiety or depression, or may even be caused by the negative side effects of medication – all things that are fairly normal issues for ageing Canadians.

Dr. Sinha, director of Geriatrics at Sinai Health and the University Health Network, stresses that dementia isn't just memory loss, but can also involve changes to a person's ability to understand spatial relationships, such as recognizing faces or objects in plain sight. These changes can affect their ability to drive, cause them to get lost on regular walking routes, or make them forget how to prepare a routine meal.

Ten signs to watch

According to Alzheimer's Canada, the following are the top warning signs that a loved one may be experiencing dementia:

- **Sign 1: Memory changes that affect day-to-day abilities:** Forgetting things often or struggling to retain new information.
- **Sign 2: Difficulty doing familiar tasks:** Forgetting how to do a typical routine or task, such as preparing a meal or getting dressed.
- **Sign 3: Changes in language and communication:** Forgetting words or substituting words that don't fit into a conversation.
- **Sign 4: Disorientation in time and place:** Having problems knowing what day of the week it is or getting lost in a familiar place.
- **Sign 5: Impaired judgment:** Not recognizing something that can put health and safety at risk.
- **Sign 6: Problems with abstract thinking:** Having problems understanding what numbers and symbols mean.
- **Sign 7: Misplacing things:** Putting things in places where they shouldn't be.
- **Sign 8: Changes in mood, personality and behaviour:** Exhibiting severe changes in mood.
- **Sign 9: Loss of initiative:** Losing interest in friends, family and favourite activities.
- **Sign 10: Challenges understanding visual and spatial information:** Having problems seeing things correctly, or coordinating visual and spatial information.

We can help

Dementia can affect one's ability to manage their day-to-day affairs, especially financial ones. We can help you or your loved one prepare for this possibility, and help loved ones reduce the issues that may arise as dementia progresses over time.

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Contact us

We are committed to providing you with the highest quality of service. If you have any questions, if there is anything we may assist you with, or if you would like to speak in greater detail about anything, please let us know.

Avinash's Admin Note: At the end of May, Canadian and U.S. markets will be shortening the settlement time of trades by a business day, moving from trade date plus two business days (T+2) to trade date plus one business day (T+1). This transition will provide numerous benefits such as increased market efficiency and reduced settlement delays. The move to T+1 settlement cycle means that clients who buy securities without sufficient cash on deposit will need to ensure their money is sent to RBC Dominion Securities at least one day earlier.

Closing Quote:

"Games are won by players who focus on the playing field—not by those whose eyes are glued to the scoreboard."

-*Warren Buffett*