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To My Clients:

Autumn is a season of change. For some families, children may be off to college or university. For individuals, it may mean a new job or business venture. Each change can have implications to consider in the context of your financial plan.

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

Enjoy the fall colours.

--Rafeeza

Maintaining Perspective

With the extended bull run, it seems as though every global event is analyzed for its potential negative effect on the markets: Will this be the start of a bear market?

But think about just how much opportunity would have been missed if you followed the underlying pessimistic narrative over recent times. For years, the media has been claiming that equity markets have reached their peak.

So, why is pessimism so seductive? First, it is innate: Organisms that treat threats as more urgent than opportunities have a better chance to survive and reproduce. A Harvard study showed that pessimism is perceived to be more expert, intellectual and competent. Daniel Kahneman, who won a Nobel Prize for his work on cognitive psychology, showed that people respond more strongly to loss than gain. Optimism often means staying the course, which can appear oblivious to risks. Pessimism requires action, which appeals to human nature because we are more inclined as a species to act than wait.

This is not to say that today's economic headwinds should be ignored. A major shift in global trade continues to be of concern, as the U.S. imposes tariffs globally. At home, Canada remained sidelined in NAFTA negotiations throughout the summer and the Trans Mountain pipeline project continued to

experience setbacks. Globally, recent focus has been on Italy's ongoing debt issues, which have been complicated by new political changes, as well as Turkey's currency and debt crisis; all of which have kept investors on edge.

Being an optimist doesn't mean believing that short-term setbacks won't happen. After all, financial and economic markets are cyclical by nature. But what looks like tomorrow's problem often is not the real issue when tomorrow rolls around. Economies have proven remarkably resilient over time and the future is likely to be no different. We often underestimate our ability to adapt: people, businesses and economies move on from even the toughest setbacks.

How can investors keep perspective in the face of pessimism? One way to do this is to step back from the headlines. Focus on your end goals, not the news of the day. Continue to save and invest steadily for the future. Leave the worry over day-to-day developments to those of us who oversee your investments.

Equally important, invest confidently with your longer-term objectives in mind. Your portfolio is being managed with the expectation that markets will experience both ups and downs. Remember that patience, along with time and the virtues of compounding, are likely to be some of your greatest allies.

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Offsetting Capital Gains: Tax Loss Selling

Given the extended bull market run, some investors may be considering 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 losses 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 security's adjusted cost base. For tax purposes, the amount included in income is 50 percent of the total gains less 50 percent of the total losses. If losses exceed gains in a particular year they cannot be used to offset other types of income. A net capital loss 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, during the period that begins 30 days before and ends 30 days after the transaction's settlement date, you (or an "affiliated party") acquire the same security (or property) that was sold at a loss and continue to own it (or have a right to acquire it). An affiliated party includes a spouse (partner), a corporation controlled by you/

your spouse, or a trust for which you are a beneficiary. This rule also applies when transferring securities in a loss position from non-registered to registered accounts: the loss will be denied.

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. Here, you would sell your loss securities to your spouse at fair market value and file an election in your tax return. Your spouse would hold the securities for at least 30 days and then sell them in the market. To ensure that this is done correctly, consult a tax advisor.

Other Considerations

Given today's weak Canadian dollar, don't forget the effects of currency fluctuations if securities have been purchased in a foreign currency. Take, for example, a security purchased at US\$100 in 2012 when the U.S. and Canadian dollars were at par. If it has fallen in price to US\$80 and you sold 100 shares, the capital loss would be US\$2,000. However, with an exchange rate at the time of sale of US\$1=C\$1.32, selling the shares for US\$8,000 would yield C\$10,560, resulting in a capital gain of C\$560.

Things to Reflect On

Reasons to Be Thankful

If you've been following the headlines of late, it may seem as though optimism is in short supply. But with Thanksgiving and December holidays falling in Q4, why not take the time to reflect on why we should be thankful. Here is a start:

Oh, Canada! — Consider yourself lucky to be living in one of the best nations in the world! Canada was ranked #1 as the world's most admired country in 2017.¹ Calgary, Vancouver and Toronto consistently place in the top 10 places to live globally each year.² What do Canadians think makes our nation great? "Peace", "freedom to live as we see fit", "health care", "being polite" and, of course "Leonard Cohen!"³

We are living longer and better lives — We have one of the highest life expectancies: over 82 years old.⁴ In just two generations, this has increased by almost a full decade. Our standard of living has more than doubled over 50 years: GDP per capita was around \$27,600 in 1968 (2018 terms, inflation-adjusted); today it is around \$60,000. Necessities and luxuries alike have become cheaper: consider that 30 years ago a microwave cost almost \$580 (680W); today it is only \$140 (1100W).⁵ This, while 70 percent of the world still lives on less than US\$10 per day.



There has never been a better time to be an investor — Today, we have access to greater markets, more choice, and better information. Over 50 years, the S&P/TSX Composite Index has appreciated by around 5.9 percent on an annualized basis, with the equity market continuing to be one of the greatest wealth generators of all time.⁶

Your future looks bright — According to a recent survey, 32 percent of Canadians nearing retirement have no retirement savings.⁷ Advised Canadians save more for retirement, amassing 2.73 times greater assets than non-advised households, and have greater financial confidence about the future.⁸

1. Reputation Institute; 2. Economist EIU; 3. <http://abacusdata.ca/the-true-north-friendly-free-what-makes-us-proud-to-be-canadian/>; 4. WHO 2018; 5. Report on Business Magazine, 04/12; 6. 1/1/68 to 4/30/18. 7. <https://bnnbloomberg.ca/32-of-canadians-are-nearing-retirement-without-any-savings-poll-1.991680>; 8. After 15 years, IFC Canada, 2012.

Consider the Implications

The Positives (and Perils!) of Joint Ownership

Joint ownership of assets has been growing in popularity — with spouses, and now more frequently between parents and children. While there may be benefits, be aware of the potential pitfalls prior to transferring assets into joint ownership.

Joint ownership occurs when an asset is owned by more than one person. Generally, there are two forms of joint ownership: i) “joint tenancy” (with the right to survivorship), an arrangement in which the ownership of the asset passes directly to the surviving owner(s) upon the death of one of the owners.* As such, assets pass outside of the deceased owner’s estate; and ii) “tenants in common”, in which owners each hold separate ownership interests in the asset that can generally be sold, transferred, or bequeathed without the consent of the others.

Here, we focus on joint tenancy, which is being increasingly used in the estate planning process. Here are some of the positives and potential perils to be aware of prior to entering into this type of arrangement:

First, the positives...

Ease of asset transfer — Upon the death of one owner, the surviving owner(s) automatically becomes the owner of the asset, with few legal or administrative hassles upon transfer.

Bypass probate — Since assets pass to joint owners outside of the will, no probate or estate administration fees are assessed in provinces where applicable.

And now, the potential perils...

Tax implications — There may be tax consequences. For example, if real estate is owned jointly between a parent and a child who already owns a residence, there may be a proportionate loss of the principal residence exemption. Adding a joint owner to a property could also result in the incidence of land transfer tax. For jointly-owned investment accounts, even if tax slips may be received in the names of the joint owners, the Income Tax Act could require attribution of the income earned and owned by one taxpayer to another taxpayer for



tax purposes, based on who provided the capital to acquire the assets in question. Depending on the circumstances, adding another party as joint owner could also result in the recognition of some gains or losses for tax purposes.

Loss of control — Joint ownership may mean that the original owner no longer has total control over the assets. With property, decisions regarding its maintenance or sale need to be made jointly. With financial accounts, such as a bank account, a joint owner would generally have the ability to withdraw or use funds.

Estate equalization issues — If the majority of assets are held in joint ownership (outside of the estate), the estate may not have sufficient assets to fund legacies or gifts outlined in the will, or potential tax liabilities due. If an estate is to be divided equally but a jointly-owned asset hasn’t been considered, expensive and divisive legal action could result. It also may not be clear if a joint-tenancy arrangement was done for ease of administration or if a change in beneficial ownership was intended.

Exposure to creditors or matrimonial claims — Jointly-held assets may be exposed to claims by a joint owner’s personal or business creditors, or ex-spouse. This could force the sale of an asset to cover the payment of debts or claims of the joint owner.

As always, please seek the advice of legal and tax advisors as it relates to your particular situation.

*Not applicable in Quebec, where laws differ and an automatic right of survivorship does not exist.

Did You Know...

The TFSA may be known as the Tax-Free Savings Account, but it isn’t always “tax free”. Not all investments within a TFSA are held free of tax: Foreign dividend-paying shares may be subject to a withholding tax on dividends paid. For example, the U.S. imposes a 15 percent withholding tax on the dividends paid to Canadians by U.S. corporations. Registered Retirement Savings Plan (RRSP) and Registered Retirement Income Fund (RRIF) accounts are exempt from this tax under the Canada-U.S. tax treaty. For non-registered accounts, this withholding tax can potentially be recovered by claiming a foreign tax credit. However, you can’t recover this withholding tax within a TFSA. Also, be aware that eligible Canadian dividend payments held within a TFSA will forego the dividend tax credit.

This is a good reminder that different types of investment returns are taxed in different ways, and each investment account is governed by different tax rules. Thus, the location in which your assets are held (i.e., registered or non-registered investment accounts) can make a difference on your tax bill. Having an overall view of your assets and their location can help with tax efficiency. Please call if you would like to discuss.

Insured Annuity: Part of a Diversified Plan

Retirees are constantly searching for ways to boost the rate of return on their non-registered investment without taking on significant risk. Setting up an insured annuity may be a lower-risk strategy that has the potential to increase your after-tax cash flow and yield while preserving capital for the eventual transfer to your heirs.

What is an Insured Annuity?

As the name suggests, there are two components involved in this strategy: i) the purchase of an exempt life insurance policy; and ii) the purchase of a prescribed life annuity that provides regular cash flow. An annuity is an investment where, in exchange for a single lump sum payment, an insurer makes guaranteed regular income payments that contain both an income and return of principal elements.

How Does It Work?

The annuity used in this strategy would provide a guaranteed income stream for the rest of your, and/or your spouse's, lifetime. A portion of the payments you receive is a return of principal and only the income portion of the payment is subject to tax annually.

In order to ultimately replace the capital used to purchase the annuity in your estate for the benefit of your heirs, a life insurance policy is purchased with a death benefit equal to the original capital amount used to purchase the annuity. The premiums for the life insurance policy are funded by a portion of the annuity payments you receive and insurance proceeds are paid to your named beneficiaries, or your estate if no beneficiaries are named.

As only the income portion of the payments is taxable, when non-registered funds are used, the income taxes may be lower than with comparable investments such as guaranteed investment certificates (GICs), term deposits, or bonds. As only



a portion of the annuity payments is included in the calculation of net income, this may also help to preserve income-tested benefits such as Old Age Security. For a named beneficiary, at the death of the owner insurance proceeds will not form part of the deceased's estate, so it will not be subject to estate administration fees, where they apply.

Important Considerations

The amount of regular annuity payments received and the insurance premiums you are required to pay will vary depending on your age, gender, the amounts involved, and type of annuity and insurance purchased. Before adopting this strategy, it is very important to understand that the capital used to purchase the annuity will no longer be accessible to you. Also, it is best to complete the insurance side of this strategy first to ensure that you and/or your spouse are insurable and at standard rates. The higher insurance risk you pose, the higher your insurance premiums will be, resulting in lower after-tax cash flow.

An insured annuity may be a valuable addition to a larger diversified plan. Please contact us to discuss whether an insured annuity may be beneficial for your particular situation.

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