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To Our Clients:

Our team has expanded! Aaron Khan has joined us as a Financial Advisor. He holds a B.Comm from University of Ontario Institute of Technology and is pursuing a Chartered Financial Analyst designation.

It has been said that "market corrections are as predictable as snowstorms in winter. Like storms, you never know when they will come... but they will come." While times of market volatility can test our patience, try to keep focused on the longer term. Better days are ahead.

Sending our best for 2019.

--Rafeeza & Aaron

Focus on What You Can Control

The year 2018 will go down in the books as a difficult one for the Canadian financial markets. Trade tensions and tariffs imposed by the U.S. created ongoing volatility at home and abroad. Concerns over Canada's competitiveness have been put under the spotlight, the result of falling foreign direct investment, slowing gross domestic product growth and problems in getting our deeply discounted oil to broader markets. While the federal government acknowledged the need to support business competitiveness in its late November fiscal update, it remains to be seen how the proposed measures will help to impart change.

Despite these challenges, it is worthwhile to remember that the financial markets have faced similar situations over time and have eventually recovered to reach new highs. Longer-term investors are often at the mercy of developments that take place over the short run. Most often, we can't do much about them or their impact on the markets. But, as investors, we can focus on the things within our control. In this time of new year resolutions, here are some ideas:

Put trust in your plan — This is a good reminder that portfolio guidelines have been put in place to help weather the inevitable periods of volatility. This may include diversification and asset allocation, rebalancing

where necessary, limiting the size of any one holding and focusing on quality holdings.

Stay the course — Portfolio gains do not always occur at a steady rate. Volatility in the markets remains one of the certainties of investing. While keeping expectations on an even keel may be difficult, try and focus on your longer-term objectives and keep building your investment portfolio with them in mind.

Keep time on your side — Don't overlook the opportunity to continue saving for the future. Put time on your side and contribute to tax-advantaged accounts such as your TFSA and RRSP. A great way to build portfolios may be to turn lower prices to your advantage.

Invest in yourself — Follow through with your new year's pledge to eat better or get to the gym. Taking care of yourself can pay dividends to your financial well-being down the road. Consider that you may be able to work longer or reduce future health care expenditures if you stay healthy until a ripe old age. In the words of renowned investor Warren Buffett: *"anything you invest in yourself, you get back tenfold, and nobody can tax it away or steal it from you."*

As we look forward, I hope that the year ahead will be full of happiness and success for you and your loved ones.

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It's RRSP Season Again!

Spousal RRSPs: Split Income, Save Tax

Over the years, the government has eliminated many income-splitting opportunities available to investors. However, if you have a spouse (common-law partner), a spousal Registered Retirement Savings Plan (RRSP) may be a good income-splitting opportunity for a situation in which you would earn a higher level of income in retirement, while your spouse will have little or no source of retirement income.

A spousal RRSP is a plan to which you contribute and for which you receive tax deductions based on your available contribution room, similar to a traditional RRSP. However, the difference is that with a spousal RRSP, your spouse is the annuitant, so any funds withdrawn are considered that spouse's income and must be included in his/her income tax return (except for funds to correct an over-contribution). As such, withdrawn funds will be taxed at a lower rate should your spouse pay tax at a lower rate than you.

Be aware that income attribution rules may apply to a spousal RRSP. In general, your spouse must wait for three calendar years after your last contribution before making a withdrawal. Otherwise, some or all of the RRSP withdrawal would be taxed in your hands. To potentially avoid these rules, you could instead fund your own RRSP in the years leading up to the time when withdrawals from the spousal RRSP will be made.

While pension income-splitting rules allow you to allocate income drawn from a RRIF to your spouse for tax purposes, consider



that this can only be done after reaching the age of 65. Pension income splitting is also limited to 50 percent of eligible pension income, which includes RRIF withdrawals once you are at least age 65. A spousal RRSP can provide income splitting at any age and can enhance the opportunity, since the full amount of the RRSP income may be included in the tax return of your spouse, who may have a lower tax rate than you. If you are over age 71 and have a younger spouse, it can delay the taxation of retirement income as the spousal RRSP can continue, without any minimum withdrawals being required, until your spouse reaches age 71.

RRSP Reminders

- 2018 Contribution Deadline: **Friday March 1, 2019.**
- **Turning 71 years old this year?** Please get in touch to discuss options for converting your RRSP.

Saving for the Future

Dispelling the RRSP/RRIF Myths

Participation rates for the RRSP have been declining over recent years. In fact, some Canadians believe there is "no point" in investing in the RRSP because of the taxes due in retirement. But the RRSP can provide a substantial tax advantage. Let's look at a couple of the myths:

Myth: There is no point in investing in an RRSP as you pay all the savings back in taxes when you retire.

While you do pay tax on RRSP withdrawals, don't forget that you received a tax deduction at contribution. This is often overlooked: people confuse pre-tax with after-tax dollars. A \$4,000 RRSP contribution is equivalent to a \$2,800 after-tax contribution to a non-registered account at a 30 percent marginal tax rate.

Myth: The RRSP is disadvantaged as investment earnings are subject to higher taxes, since withdrawals incur tax at regular rates, whereas capital gains realized in a non-registered account are taxed at a lower rate.

If you assume a constant marginal tax rate and adjust for pre-tax and after-tax amounts, the RRSP will generally outperform a non-registered account that holds identical investments. The chart

below demonstrates this outcome, whereby a pre-tax contribution of \$4,000 has been made for 20 years. The example assumes a 30 percent marginal tax rate and growth of capital at 5 percent over a 20-year period.

	RRSP Account	Non-Registered Account
Pre-tax annual contribution	\$4,000	\$4,000
After-tax contribution: 30% tax rate	n/a	\$2,800
Total contribution over 20 years	\$80,000	\$56,000
Cumulative growth: 20 years at 5%	\$138,877	\$97,214
Tax at withdrawal at 30%	\$41,663	\$6,182 ¹
Net after-tax amount	\$97,214	\$91,032
Difference	+6.8%	

1. Realized capital gain of \$97,214 - \$56,000 = \$41,214 taxed at 50% inclusion rate.

The benefit is even greater if the individual has a lower marginal tax rate in retirement.

As such, don't overlook the tax-deferral benefits of compounding over time using the RRSP.

Keeping Perspective

Volatility: More Common Than We May Think

For the Canadian equity markets, 2018 was a turbulent year — one that saw poor performance and increased volatility. While volatility in the equity markets may be a source of discomfort, did you know that it is more common than we may think? Here are some perspectives:

Volatility plays a common role in the equity markets.

Consider this historical perspective on volatility: since 1970, almost 60 percent of the annual returns of the S&P/TSX Composite Index* have been year-over-year changes (either gains or losses) of greater than 10 percent. Almost 30 percent of the annual returns have been year-over-year changes of greater than 20 percent. Yet, even with these swings in both directions, over this period the index has had an annualized return of 5.9 percent (not including the impact of dividends).

The impact of volatility smooths out over time. On a monthly basis, the likelihood of the S&P/TSX Composite Total Return Index experiencing a negative return is 38 percent during the past 30 years. Yet, the probability of negative returns decreases as the time horizon increases. Over a three-year rolling holding period, the probability of a negative return is 17 percent

% of Negative Returns Over Holding Period From 1988 to 2018



Source: S&P/TSX Composite Total Return Index from 9/30/88 to 9/28/18.



and this drops to 0 percent when considering seven-year rolling holding periods and beyond.

Volatility can provide opportunity. During temporary periods of downward volatility, the resulting price movements of many quality securities often do not reflect their long-term performance potential. This may provide a short-term opportunity to purchase good investments at a lower price. At the same time, remember that any decision to sell securities should not be based on an emotional reaction to volatile markets, as this can mean falling into the trap of selling securities at a low point.

As difficult as it may be in practice, try and keep perspective during periods of volatility. Fluctuations in the equity markets are a normal part of investing, and techniques such as diversification and asset allocation are meant to help minimize risk in portfolios during these inevitable times. Continue to stay the course and please call if you have any concerns.

Notes: *Uses S&P/TSX Composite Index returns from 31/12/1969 to 28/09/2018. Annual returns have been calculated from 31/12/1969 to 31/12/2017.

Fact or Fantasy: What's Your Retirement Plan?

Last fall, the U.S. Mega Millions lottery made history when it became the largest jackpot of all time at a whopping US\$1.6 billion. Reportedly, at one point before the draw, lottery tickets were selling at a rate of 550 tickets per second!

The odds are that you won't win the lottery, yet surprisingly surveys continue to show that some Canadians plan on funding their retirement with a lottery jackpot.¹ Yet, the average Canadian has a much better chance of being struck by lightning:

Estimated odds of certain events:

Winning U.S. Mega Millions Lottery:	1 in 302,575,350 ²
Winning Canada's Lotto Max:	1 in 28,633,528 ³
Being hit by lightning:	1 in 300,000 ⁴

A More Viable Option?

In reality, the path towards having a million dollars in retirement may be well within reach for disciplined investors who have the

luxury of time. Consider the use of the Tax-Free Savings Account (TFSA). If a 25-year-old started a TFSA at inception (in 2009) and fully contributed each year, the TFSA could yield around \$1 million just after reaching the age of 70, assuming a compounded annual rate of return of 5 percent and a continued TFSA contribution limit of \$6,000 per year beyond 2019.

Your TFSA: Have You Fully Contributed?

- **2019 TFSA Dollar Limit:** \$6,000
- **Lifetime Limit:** \$63,500 (for eligible residents, at least 18 years of age in 2009, who have not yet contributed)

Source: 1. canadianbusiness.com/blogs-and-comment/retirement-lottery/, 1/30/14; 2. cnbc.com/2018/10/19/the-rules-were-changed-making-odds-of-winning-mega-millions-so-slim.html; 3. lotto.bcl.com/lotto-max-and-extra/prizes-and-odds.html; 4. canada.ca/en/environment-climate-change/services/lightning/safety/fatalities-injury-statistics.html

Retirement: What's Your Income Target?

There have always been varying opinions regarding the amount of income needed to ensure a comfortable retirement. While some suggest an annual target of 70 percent of pre-retirement income, others advise 80 percent or more. Still others argue that these targets may be too high, pointing to the fact that sometimes pre-retirement spending can be lower than we perceive. With payroll deductions, mortgage payments and child-related costs taking up a significant portion of expenses during our working years, we may actually be able to live on much less than we believe.

The point is that the amount of income required for retirement will vary based on the individual and their particular circumstances. For some, income requirements can actually increase after retirement, depending on desired lifestyle. This is why it's important to give thought to the type of retirement lifestyle you envision and consider all of the associated costs as you plan ahead.

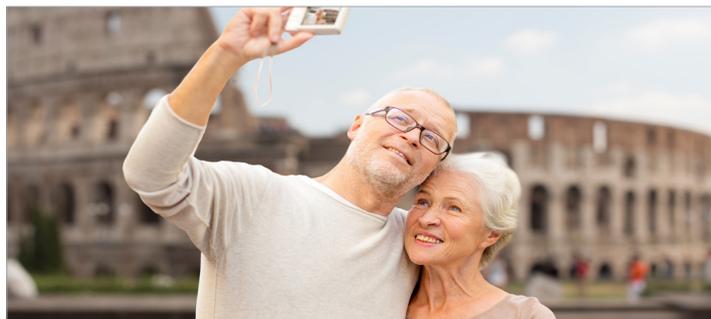
Is Your Target Too Low?

Even after taking into account your expected retirement expenditures based on lifestyle choices, there are other factors that can impact your retirement income:

Healthcare Costs — Many retirees cite healthcare costs as the most unanticipated of retirement expenses, often a result of unexpected illness or disability. The average retiree's out-of-pocket medical costs are in excess of \$5,400 per year, not including long-term care.¹ Long-term care costs can be more significant: the cost of assisted living in a private facility is estimated at between \$40K and \$100K per year; even subsidized facilities can range from \$25K to \$40K annually.² Many Canadians have made no provision for these costs.¹

Obligations to Family — There may be unforeseen obligations to family, such as a child or parent who may require financial support.

Rising Cost of Living — Increases in inflation, or even changing tax law, may add to retirement costs.



Sources of Income — Some individuals may be relying on future sources of funds, such as home equity or inheritances, for retirement. However, these may end up being smaller than expected or not materialize at all. Even those who expect to continue working into retirement may be forced to end work due to illness or economic changes. The good news? For those who save and invest over time, the path to achieving retirement targets becomes shorter.

Factor in Longevity

As we continue to live longer lives, we must factor in the need to fund longer retirements. While the average Canadian will live to around 83 years old, your longevity may be greater still.³ So, if you retired at age 70, the average life expectancy would suggest 13 years of retirement, but this could extend to over 30 years if you become part of the growing group of centenarians.

Putting It All Together

We can help you to map how everything fits together, setting financial targets for retirement based on your desired goals, factoring in your anticipated cash inflows and expenses, and developing a plan to achieve those targets. This is one of the many services offered to our clients. Having a plan in place provides a retirement advantage that many Canadians don't have, and it is an important part in helping you achieve the happiness envisioned for your golden years.

1. <https://theglobeandmail.com/globe-investor/retirement/retire-health/hidden-health-care-costs-can-be-a-shock-for-retirees/article27324248/>; 2. https://hoopp.com/docs/default-source/about-hoopp-library/advocacy/retirementsecurity-longtermcare-feb2018.pdf?sfvrsn=397a7d47_2; 3. World Health Organization, 2018.

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