INVESTMENT
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RESEARCH CAPITAL CORPORATION

Personal Newsletter from Janice Honeyman

SUMMER 2021

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Cutting Through the Noise

There is an old saying in the investment industry: "Don't confuse brains with a bull market." The inference, of course, is that it's easy to pick winners when markets are rising. The challenges emerge when the markets change their course, as they always do. With the tremendous proliferation of investment information available through the internet and other sources, a modern corollary might be: "Information is not the same as advice."

Technology continues to make information more widely, and instantaneously, available. This has provided the opportunity for investors to make more informed decisions. However, this also comes with pitfalls. Primarily, the difficulty arises in interpretation. Prudent evaluation often requires specialized skills and insight. It also involves cutting through the noise to focus on the most important factors when making investment decisions.

In buoyant markets, the noise can be amplified. Rising markets provide confidence for investors to take on more risky behaviours. New innovation can also make it difficult for many to assess risks, because expectations are largely driven by hope and uncertainty about the future.

Today is no exception. In May, the cryptocurrency Dogecoin, a joke between two engineers named after a "doge meme,"[1] became the fourth most valuable digital currency after gaining 14,000 percent this year. This was much to the surprise of its cofounder, who reportedly created it in "a few hours" and sold his holdings in 2015.[2] Similarly, SPAC issuances have surged, prompting regulators to issue warnings. SPACs sell shares with the objective of buying a private company to take public. They are known as "blank cheque" companies for a reason: they have no operating business and often no stated acquisition targets. With increasing endorsements by celebrities, investors have been warned not to be "lured into participating in a risky investment."[3]

It's easy to get caught up in the excitement — we'd all like to ride the next superstar investment to financial freedom. We may also feel that we aren't successful investors unless we are in the middle of the action. Yet, when there is too much enthusiasm for what appears to be a good opportunity, it can sometimes prove unsustainable.

Some of the most successful investors are able to ignore the noise when they make portfolio decisions. They follow the specific rules established to control risk within a portfolio. While such an approach may not produce the results that make overnight headlines, it provides a good litmus test to avoid being carried away by the enthusiasm of the moment.

As we look ahead, we've needed greater endurance than other nations in the return to normalcy. With strengthened commodity prices, the reopening of certain economies and increasing inflationary pressures, the investing landscape looks different than just a year ago. As your trusted advisor, the changing times are precisely when I can provide thoughtful evaluation and scrutiny in investment choices. Let's enjoy the market advances, while continuing to look forward at new opportunities and assess the shifting landscape to help protect your portfolio and reach your goals.

Janice

1. Meme: an amusing captioned picture/video widely spread online through social media; en.wikipedia.org/wiki/Doge_(meme); 2. markets.businessinsider.com/currencies/news/dogecoin-price-rally-eclipses-xrp-4th-largest-crypto-doge-2021-5-1030391242; 3. Special Purpose Acquisition Company; sec.gov/oiea/investor-alerts-and-bulletins/celebrity-involvement-spacs-investor-alert

In this issue

In Short: The 2021 Federal Budget — How It May Affect You

In April, the federal government released its first federal budget in two years. Perhaps most notably, the federal government expects to continue its significant spending — over $101 billion for the next three years — to support strong economic recovery in the fight against Covid-19. It extended various emergency benefits, resulting in a record deficit and significantly higher projected debt for the foreseeable future.

Some would argue that the excessive spending has Canada wading into "Modern Monetary Theory" (MMT) waters. MMT suggests that federal government spending shouldn't be constrained by its revenues, which are largely created through taxation. It suggests that countries that issue their own fiat currency should determine what their requirements are and spend accordingly, not worrying about running larger deficits as long as inflation is under control. Given the pledged spending, it may seem as though Canada is embracing this new way of economic thinking. And we're not the only ones. Many governments have followed suit, with an estimated US$12 trillion spent globally in just the first 8 months of the pandemic.[1]

While the future economic consequences are yet to be seen, the injection of significant liquidity into the economy appears to be having inflationary effects. We see increasing commodity prices (lumber prices have more than tripled this year!) and steepening grocery bills, as just some examples. Beyond the spending spree, the budget had no changes to personal or corporate income tax rates. Here is how you may be impacted:*

For Seniors: Extending Benefits — Seniors who are 75 years or older as of June, 2022 will receive a one-time Old Age Security (OAS) payment of $500 by this August. For this same group, monthly OAS payments will be increased by 10 percent beginning in July, 2022. If you aren't in need of these funds, consider investing them. If you haven't maxed out contributions, a tax-free savings account is an ideal way to potentially grow funds on a tax-free basis.

For Investors: Green Investing — The budget pledges $8.8 billion over five years to support a greener future, including the issuing of $5

billion of green bonds to finance green projects. The budget suggests that the presence of government backed bonds may support more mature investors who are "looking for a green portfolio but also need to manage their investment risk."[2] With the rise in support for green investing, if you are interested in incorporating environmental factors into your portfolio, please call the office.

For High-Net-Worth Spenders: A Luxury Tax — If you're considering the purchase of a luxury vehicle in the near future, you may want to do so by Dec. 31, 2021. As of January 1, 2022, sales of cars and personal aircraft with a retail price of over $100,000, as well as boats priced over $250,000, will incur a new tax. It will be calculated at the lesser of 20 percent of the value above those thresholds, or 10 percent of the full value of the vehicle.

For Business Owners: Accounting for Capital Assets — If you operate a Canadian-controlled private corporation, the business will now be able to purchase up to $1.5 million of certain capital assets and fully expense these in the year they become available for use. This includes eligible assets purchased on or after April 19, 2021 and before 2024. There may be tax benefits achieved by immediately expensing certain assets so please consult a tax professional as it relates to your situation.

For greater detail on the initiatives proposed, see the Government of Canada website: budget.gc.ca/2021/home-accueil-en.html

1. theglobeandmail.com/business/article-whatever-we-may-think-of-modern-monetary-theory-its-day-in-the-sun-has/; 2. Budget 2021: A Recovery Plan for Jobs, Growth and Resilience, Government of Canada, page 166. *At the time of writing, the budget proposals had not been passed into law.

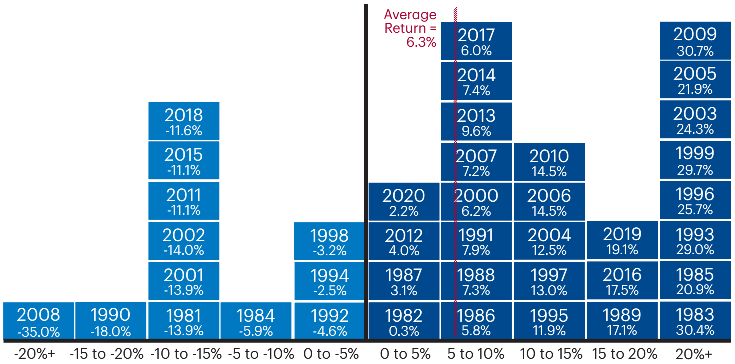
Stock Market Returns: Never a Constant

During buoyant market times, it may be easy to forget that advances in the equity markets often do not happen at a constant rate.

The chart to the right shows the annual returns of the S&P/TSX Composite Index over the past 40 years. It's worth pointing out how the distribution of returns has significantly varied over this period. In fact, only 20 percent of annual returns fall within the long-term average return of 6.3 percent over the past four decades.

Most of us are longer-term investors and will invest over multiple market cycles. While we should enjoy the market's advances, we shouldn't forget that patience, through time in the markets, is often key in helping to provide predictability in investment returns over the longer term.

Annual Returns of S&P/TSX Composite 1981 to 2020, By Year



Source: S&P/TSX Composite Index annual returns, 1981 to 2020, not including dividends reinvested.

Estate Planning: Preparing for a Wealth Transfer

With over one trillion dollars of inheritances expected to be passed along over the next decade, taking action to preserve wealth across generations has never been more important[1] Does your estate plan protect this wealth transfer? Here are some considerations:

Preventing Your Estate from Being Contested

It isn't uncommon for disputes to arise during the estate settlement process, especially for families with complex dynamics. In some cases, these disputes can escalate to litigation. While court battles are not only time consuming and stressful, they can also end up being very costly, which can significantly erode family wealth. Perhaps worst of all, they can tear families apart. The reasons are many, including outdated documentation, poorly drafted documents, poorly chosen executor(s) and lack of communication about estate plans with beneficiaries.

There may be ways to minimize this risk. Communicating with heirs about your intentions while you are alive can help to prevent surprises. Importantly, estate documents should be drafted using a reputable professional and should include specific instructions to eliminate doubt. Documents should be reviewed and updated as circumstances require. Care should also be taken when choosing an executor(s), as poor actions by executors can lead to litigation.

Helping Beneficiaries Manage a Wealth Transfer

In some cases, beneficiaries may need support to manage wealth. Young beneficiaries or those with disabilities may not be financially responsible; spouses may need help managing assets such as investments or a business. Beneficiaries may also need to be protected against potential current or future creditors, such as business partners, customers or former spouses.

One of the more common tools used to support beneficiaries is a testamentary trust to hold and manage assets for their benefit. This can help to limit access and manage assets by specifying the timing and amount of distributions to be made.

Accounting for Divorce or Blended Family Dynamics

The transfer of family wealth may need to be protected to account for a complex family structure. In some cases, the way in which assets are currently structured may not be meeting your objectives. For instance, having assets jointly held in a current relationship may unintentionally put children from a previous marriage at risk. An unintended division of assets may also occur if a current spouse becomes a primary beneficiary, when assets were intended for children from a previous marriage. In some provinces, a new marriage can potentially revoke an existing will and the instructions leaving assets to children from a previous marriage would be invalidated. As such, the advice of a lawyer who understands complex family structures can ensure that assets are passed along as intended.

If you have the desire to leave a lasting legacy, planning ahead can help protect family wealth. Given our familiarity with your financial position, we can act as a resource. We recommend the support of tax and legal professionals as it relates to your particular situation.

1. financialpost.com/personal-finance/retirement/canadian-inheritances-could-hit-1-trillion-over-the-next-decade-and-both-bequeathers-and-beneficiaries-need-to-be-ready

Tax Planning: A Spousal Rollover May Not Always Make Sense

In married or common-law partnerships, using a spousal rollover[1] has become a conventional strategy for many estate plans. Under a spousal rollover, any associated capital gains on certain capital property or registered plan income that transfers to a surviving spouse will be deferred until the spouse disposes of, or is deemed to have disposed of, those assets or withdraws them (in the case of registered plans).

However, in some cases, there may be reasons why it may not make sense. Why? While deferring tax is often beneficial, it can also result in unintended consequences. Take, for example, a situation in which a surviving spouse rolls their deceased spouse's Registered Retirement Income Fund (RRIF) to their own RRIF. This increases their RRIF minimum annual withdrawal requirements. The higher income results in a higher marginal rate of taxation, and the spouse is now subject to the Old Age Security clawback.

Some forward planning could have potentially reduced the overall tax-related burden. For instance, it may have been better for the deceased spouse to bleed down their RRIF in the years in which they had a lower marginal tax rate. Or, it may have made sense for the RRIF to be partially converted to cash upon death, with only a portion transferred to the surviving spouse's RRIF.

Electing to Not Use the Spousal Rollover

Be aware that an automatic rollover of capital property occurs, for tax purposes, upon the death of the first spouse. As such, an election will need to be made to not use the spousal rollover on a property-by-property basis. Here are some other situations in which electing to not use the spousal rollover may make sense:

- The deceased's marginal tax rate is low on the date-of-death return.
- The deceased has capital losses carried forward from previous years that can be used to offset realized capital gains.
- The deceased owns qualified small business corporation shares with unrealized capital gains or an unused lifetime capital gains exemption.
- The deceased has property with an accrued loss, which may be used to offset accrued capital gains on other properties.

Having flexibility in tax planning by using — or not using — the spousal rollover may have its benefits. Seek the advice of a tax-planning expert as you plan ahead for your particular situation.

1. For tax purposes, a person is generally deemed to have disposed of capital property at fair market value immediately before death. While there may not have been an actual sale, there may be associated gains or losses realized for tax purposes. Unless a rollover is available, the fair market value of a registered plan is included in the deceased's income in the year of death. A spousal rollover is available where such property is transferred to a surviving spouse/common-law partner.

Responsible Investing: Four Reasons to Consider ESG Investing

Responsible Investing (RI) is quickly growing to become a standard. With accelerating commitments by policymakers and business leaders to address environmental, social and governance (ESG) issues, RI has gained a greater focus in the investing world. Increasingly, investors are prioritizing ESG factors into their investment objectives. Have you integrated ESG factors into your own investing? Here are four considerations:

1. There are a wealth of investment options. Until recently, it was difficult for investors to incorporate ESG factors into their investing. Negative screening was the main approach to RI, which involved avoiding investments that didn't meet ESG standards. With greater attention to ESG issues, this has led to other approaches to investing in this space. Last year, the world's largest fund manager announced sweeping changes to position itself as a leader in RI, committing to assessing ESG factors in its investments "with the same rigor that it analyzes traditional measures such as credit and liquidity risk."[1] Today, there are over $30 trillion in assets under management (AUM) with a sustainable strategy globally.[2] In Canada, RI assets account for almost two thirds of total AUM, or $3.2 trillion.[3] Investors can now create with ease portfolios that incorporate their own personal ESG values.

2. RI can support and enhance performance. For years, there was a long-held view that investors who prioritized ESG factors sacrificed greater returns. However, newer studies suggest that the reverse often holds true — companies integrating these practices into their operations have the potential for improved investment results over the longer term.[4] Why? One reason is because focusing on ESG factors can provide a more comprehensive view of potential risks and opportunities. For instance, of the S&P 500 companies that filed for bankruptcy between 2005 and 2015, 88 percent exhibited weak ESG ratings for years leading up to the filing.[5]

3. Investors can make a positive impact. The choices that investors make can send a message to business owners. With new commitments by global policymakers and business leaders, there has been increased transparency which has led to improved reporting and accountability by businesses and business leaders. By voting with their wallets, investors can hold companies accountable in generating a positive social or environmental impact alongside a financial return.

4. Responsible investing is the future. There has been a distinct pivot by governments, policymakers and business leaders in actively supporting and financing environmental and social movements. This past spring, the U.S. committed to cutting greenhouse gas emissions by around 50 percent by 2030.[6] U.S. President Biden has pledged almost $2 trillion to an infrastructure bill that focuses on shifting to greener energy, and proposed $1.8 trillion to support social improvements for American families.[7] Similarly, Canada has pledged a significant cut in greenhouse gas emissions. Even China, seen as a global offender, has stated its commitment to "protect the environment and deliver social equity and justice in the course of green transition."[8] Environmental and social change appears to be the new focus on many agendas, providing a platform to drive responsible investing into the future.

How We Can Assist

For many investors, investing is more than just meeting a consistent return. It involves incorporating personal values to make a positive impact. With continuing support by policymakers and leaders globally, ESG remains a focus for the future. The beneficiaries will not only include our planet, but also those who invest wisely along the way. We can help you to structure your portfolio to integrate ESG factors that are important to you. Please call for a discussion.

1. blackrock.com/institutions/en-gb/blackrock-client-letter; 2. forbes.com/sites/newyorklifeinvestments/2020/09/17/3-tips-to-get-started-with-sustainable-investing/?sh=59a85772627f; 3. riacanada.ca/research/2020-canadian-ri-trends-report/; 4. tiaa.org/public/pdf/ri_delivering_competitive_performance.pdf; forbes.com/just-companies/#2ea3f1c82bf0; Gunnar Friede, Busch & Bassen, "ESG and financial performance", Journal of Sustainable Finance & Investment, 2015; 5. markets.businessinsider.com/news/stocks/10-reasons-to-care-about-esg-investing-bank-of-america-2019-9-1028557439; 6. cnbc.com/2021/04/22/biden-pledges-to-slash-greenhouse-gas-emissions-in-half-by-2030.html; 7. cnn.com/2021/03/31/politics/infrastructure-proposal-biden-explainer/index.html; 8. Chinese President Xi Jinping, "For Man and Nature: Building a Community of Life Together," April 22, 2021. U.S. President Biden's Leaders Summit on Climate.

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