Focus Newsletter

Desjardins Wealth Management

SECURITIES

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Wondering what to expect in 2023?

DAVID LEMIEUX
Vice-President and General Manager,
Desjardins Securities

How to ensure the growth and sustainability of your wealth? Do you need to review your plans? It's normal to feel some uncertainty about the sluggish economy.

It has certainly been an eventful year! On top of the unremitting pandemic and countless climate emergencies, the Russian invasion of Ukraine had a profound impact. Inflation also led to increased rates and market disruptions.

Volatility is a natural part of investing, but in times like these, it can be hard to keep up with healthy investment habits. Your wealth manager has the investment expertise to answer all your questions. While keeping your investments well diversified, they'll help you make the right choices to contend with unpredictable markets.

They'll also make sure you have good coverage with a comprehensive, tailored and integrated offer built on a collaborative approach. Take advantage of their team's diverse expertise to optimize your financial plan, retirement plan, estate plan or legal documents. You can also get personal advice on taxation, business planning or transfer, financing and banking solutions adapted to your lifestyle.

At the beginning of the new year, it's a good idea to think about your goals and discuss them with your wealth manager. We'll do everything we can to make sure that your needs are met every step of the way.

On behalf of the entire Desjardins Securities team, we want to wish you all the best in 2023! We truly hope the new year brings you peace, health and prosperity.

A precious asset

The cornerstone of our wealth management offer is a financial plan, which is developed according to your goals. By incorporating consistent and realistic strategies into the plan, it can be in line with your life priorities and values. Your financial plan is dynamic, and you can update it to reflect any life changes that come up. It's a precious asset that you can use to keep a close eye on your finances and make the right decisions at the right time.

CASE STUDY

When you've put everything into your business

PHILIPPE GUÉRIN
Financial Planning Services Manager

Background

Luke is 55 years old. He owns a small business and has put all of his time and energy into building and growing his company. He wants to lighten his schedule in 5 years, and sell his business at age 65. How can he prepare for retirement?

Other information

- Luke has a common-law spouse.
- His company is valued at $2,600,000.
- He has always reinvested the surplus to ensure growth.
- He has $500,000 in his RRSP and $286,000 in contribution room.
- He doesn't have a TFSA or any personal debt.
- He doesn't plan on selling his house to help fund his retirement.

My advice

We can fully understand that Luke invested his energy in his business instead of planning his retirement. A business that isn't profitable can complicate your retirement goals. But it's never too late to start planning with your spouse.

Luke can start by setting his goals. What lifestyle does he want in retirement? Slowing down at 60 is a great idea. It will make it easier to transition from working life to retirement.

Step 1: Come up with a detailed assessment

Luke's retirement mainly depends on the sale of his company, which means that his risk won't be diversified enough. Will his company still be in good health in 5 or 10 years? Luke will need to invest in other assets so that his retirement isn't entirely dependent on the sale of his business.

Step 2: Create a projection of savings and assets until retirement

The investment strategy for Luke's savings will be aligned with his investor profile. He should consider the following options:

- RRSP: Considering his salary, he could get a good tax refund. At age 65, he could convert his RRSP to an RRIF and split up to 50% of the taxable withdrawals with his spouse.
- Spousal RRSP: Considering that Luke is in a common-law relationship and hasn't locked in his retirement plans, it would be important to analyze the couple's situation before choosing this option.
- TFSA: This account would be a great way for Luke to invest his tax refund from his RRSP contributions until he sells his business.
- Holding company: To find out if this option could work in Luke's favour, it's important to find out how much of the company's surplus could be invested annually.
- Individual pension plan (IPP): This option would first need to be assessed by an actuary.

Step 3: Sell the business

The implications differ depending on whether Luke sells the company's shares or its assets. This is why he needs to seek expert advice. Business transfer planning is a long process, so we recommend starting now.

With these answers and projections, Luke should be able to figure out if his retirement is on track. With the help of his wealth manager, he can come up with a strategy and make sure that he can stick to it through thick and thin.

> Luke will need to invest in other assets so that his retirement isn't entirely dependent on the sale of his business.

Three questions about diversification

MICHEL DOUCET
Vice-President and Portfolio Manager
Full-service Brokerage

Michel Doucet reminds us why this basic concept is key during market fluctuations.

1. Why is it so important to diversify your portfolio?

A well-diversified portfolio can minimize the risks associated with market volatility. Shares, bonds, large businesses, small and medium-sized businesses, industries, geographic locations… You know the saying: Don't put all your eggs in one basket. Diversification means that you mitigate your portfolio's risk by spreading it out across multiple investments.

2. Is diversification actually working?

The bond market usually acts as a safety valve, because it normally fluctuates less than the stock market, and not at the same time. During market corrections, the rise in the bond market generally offsets some of the depreciation in equities.

The only catch is that right now, we're dealing with a very high rate of inflation. The stock and bond markets are both currently on a downswing at the same time. This exceptional situation has only happened 3 times out of a total of 27 market corrections since 1926. This means that diversification has worked over time and that it's still relevant, because there will eventually be a rebound. And it could cost you if you miss it.

3. In the meantime, is it necessary to review a portfolio's allocation?

I think this is a good time to sit down with your advisor to review your financial plan. They're there to guide you, help you manage your emotions and stay the course. Financial planning is dynamic. It needs to be in line with your life changes. Given the situation, should you make any changes? Is your scenario still realistic? Have you reached your goals? What kind of investor are you? What is your risk tolerance? Keep in mind that downturns usually won't affect your financial plan. Plus, with the current interest rates, you could even look into reducing risk to reach your goals.

Keep in mind that downturns usually won't affect your financial plan.

The golden rule is to not make any emotional decisions. It's important to stay calm and avoid making drastic changes that could have a negative long-term impact on your portfolio, like selling stocks in a good company at a loss.

Remember that portfolio managers are always rebalancing portfolios to make the most of the situation. Market downturns are part of investing, just like economic expansions. Even if it's a difficult situation, remember that volatility and good opportunities go hand in hand.

Three pro tips to boost your RRSP

VINCENT SIGOUIN-MARQUIS
Senior Tax Advisor

Think you know everything about RRSPs?

Love and RRSP make a good pair

If you and your spouse make significantly different incomes, the person earning more could contribute to a spousal RRSP registered under the name of their better half. The goal? Reduce the contributor's tax bill while minimizing taxes owing for both parties at retirement. For example, if you both withdraw $60,000 from your RRSP in one year, you would pay less tax than if one person withdrew $90,000 and the other withdrew $30,000.

In case of divorce, the money would be split equally for a married couple. In the case of a separation of a common-law couple, the spouse who owns the spousal RRSP would remain the owner, but different terms could be set out in a common-law contract.

Contributions are like a fine wine

Yes, you can let them age and mature! You can defer the deduction indefinitely—even after you close your RRSP—to optimize your tax bill.

This is a particularly useful strategy when you know that you'll likely be getting significant capital gains or a salary raise. You can contribute to your RRSP in year X, but apply the deduction in year X+1 or later, when your taxable income has increased.

Example of a deduction for a $5,000 RRSP contribution:

Contribution year	Taxable income	Marginal tax rate	Tax savings
2022	$80,000	37.12%	$1,856
2023	$230,000	53.31%	$2,666

There's last contribution… and then the *last* contribution

The final contribution to your RRSP must be made by December 31 of the year you turn 71, but you may be able to reward yourself with an extra contribution for your 72nd birthday!

If you've used all your contribution room but earned income when you were 71 (for example, employment or rental income), you will have generated more room for the following year. One way to take advantage of this contribution room is by making an extra contribution in December. You'll pay a penalty for that month only, because on January 1, the contribution will no longer be in excess.

Example: If you're 71 years old in 2022 and you made $30,000 in net annual rental income, you would earn $5,400 in contribution room for 2023. By contributing this amount in December 2022, you would be charged a penalty of $34. But the tax savings could be as high as $1,998 in the case of a marginal tax rate of 37%.

We've simplified our examples for illustration purposes. There are many more strategies you can look into with your advisor. Reach out to talk to them about it!

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