



# INVESTOR'S Edge



Wealth  
Management

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An exclusive newsletter for RBC Wealth Management clients

## Use the family legacy to make a difference

**Giving money to charity; supporting causes you care about; making a positive name for your family in the community—there's a lot of work that goes into developing a solid philanthropic giving plan, especially if the plan concerns your entire family.**

Creating a charitable giving plan isn't easy. There are two traditional options families use to help simplify the process.

### Private foundations

Many families look to developing a private foundation to create the family charity. Private foundations allow your family the freedom to make decisions about the foundation's design, administration and investment management.

They do provide your family with control over your philanthropic endeavors and may help with tax relief; however, private foundations tend to have higher expenses to create and operate and may be time-consuming to manage. Foundations also have a minimum 5% annual distribution requirement.

For families that have an interest in responsible investing portfolios, investments in a private foundation may be able to include environmental, social and governance (ESG) funds. However, private foundations have an excise tax on gains made in unapproved

funds. It will be important to work with your financial advisor to confirm your private foundation accomplishes your ESG investing goals without causing additional excise taxes.

### Donor-advised funds

This charitable giving vehicle may offer better immediate tax advantages when compared with private foundations. Donor-advised funds (DAFs) have a parent organization that is a qualified 501(c)(3) nonprofit your family donates money to, and the organization provides administration and investment oversight of the fund.

Families can create the fund with a one-time contribution and make additional contributions as wanted. When the family is ready to use the fund to make a charitable donation, you only need to contact the parent organization about the timing and amount to be donated. DAFs are an income tax deduction in the year the contribution is made, and your family has the freedom to decide when charitable donations are made and to what organizations.

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Plus, some DAFs have the advantage of providing your family with dual benefits—investing your charitable donation in funds that support the causes your family cares about and then supporting charities of your choice with the fund money.

Certain DAFs allow your financial advisor to manage the assets of your donation, allowing you to customize the fund to ESG-focused investments. And, when you're ready to donate, you could also donate to ESG-focused charities or organizations.

In 2020, families contributed \$47.85 billion to DAFs, according to National Philanthropic Trust's 2021 DAF report. Of donated amounts in any year, only 5% must be donated from the funds annually, making DAFs a huge investing vehicle for families to use in supporting your values financially.

### Setting up a charitable giving plan

For some families, making decisions on what organizations to support—and how much to include—may come with difficulty. For example, if you have differing opinions on what organizations should be supported, that could create a conflict.

To help with this, it's important for your family to develop an annual charitable giving plan all members agree upon. Work with your financial advisor to help determine how much is available based on your overall wealth plan for donating to your foundation or DAF annually, and then have a family meeting to negotiate what organizations receive money, and how much. It may also be a good idea to reach out to said organizations and ask about their recommended timing for receiving the donation. For example, a food bank may need help in the winter or spring seasons but not in the summer or fall months because of food donations from gardeners in the community.

It's recommended to review the plan annually with family members to confirm opinions haven't changed—and the charity missions your family supports still match your family values.

With an annual plan and an established charitable distribution option like a private foundation or DAF, it may be much easier for your family to accomplish your annual philanthropy goals. In addition, you can enjoy your family legacy now.

**Work with your financial advisor to develop your charitable giving plan in conjunction with your wealth plan.**

## Make the most of volatility

**It's been several years since the markets experienced a longer-term bear run, but the volatile markets of 2022 may provide an opportunity to sell investment positions held in taxable accounts to harvest tax losses.**

### Harvesting tax losses

Tax-loss harvesting is when you sell an investment that fell in value lower than the original purchase price, creating a capital loss. Investments can involve stocks, bonds (called bond swapping) and other asset classes.

Tax-loss harvesting is used frequently by investors during a bear market when the market value drops more than 20% from the previous record high. A bear market tends to cause investors to have more holdings in their portfolios with significant losses. In recent history, two bear markets were recorded—mid June 2022 and right before the pandemic in March 2020, according to Investopedia.

You can apply those losses to offset other realized tax gains. If you have more losses than gains, you can apply up to \$3,000 of losses to reduce ordinary income, and/or carry those losses forward to offset gains in future tax years. This strategy makes the most sense if you determine that specific positions are no longer a good fit for your portfolio. Be sure to comply with wash sale rules if you intend to repurchase the holding later.

Wash sale rules require investors to wait a minimum of 30 days before repurchasing the stock, or similar stocks. You can use the income to purchase new stock of a different asset class or security earlier than 30 days without penalty.

### What to look for when contemplating tax-loss harvesting

Asset managers often provide notices designed to help aid in year-end tax planning in October and November. These notices provide estimated gains for the year for the funds you

have. There's a good chance you will not receive notices for funds that aren't expecting capital gains, but with a little market research, you can easily determine an estimated loss value for those funds. Work with your financial advisor and tax professional to compare your capital gains estimates against those accounts where you anticipate losses to best determine if tax-loss harvesting may benefit your wealth strategy.

### Investors who may benefit

There are many factors to consider before pursuing tax-loss harvesting. The first is what type of investments you have—and how many. If you don't have a lot of gains to offset the loss, the benefit won't apply. For short-term investors (investors holding assets less than a year) with taxable accounts, tax loss harvesting may

prove to be an advantage for this year.

Plus, timing is critical—and hard to plan for. This year's volatile market has had many ups and downs already, making it difficult for an investor to determine when a loss may pay off.

It's important to work with your tax professional to evaluate your tax situation for 2022 before you consider tax-loss harvesting. You'll want to check your tax bracket status, especially if your income is expected to increase in line with—or at a faster pace—than inflation.





## Make your retirement income last in years of volatility

One of your top wealth management goals may be creating a steady stream of income during your retirement years. For this reason, you may want to calculate the amount to be withdrawn from your investments each year, based on your goals and living needs. What is important to determine is if this withdrawal rate is sustainable through the end of your life.

### Kicking off retirement on a high note

Every person approaches retirement differently. Some people immediately embark on world travel, while others purchase toys they didn't have time to enjoy during their working years. Some people immediately get involved with volunteering and others retire to the lakeside cottage for rest and relaxation.

From a wealth planning viewpoint, finding a withdrawal rate that provides you with enough money to support your retirement lifestyle that also will be sustainable throughout your lifetime is crucial. You don't want to withdraw too much too soon, and face the risk of running out of money later in life. You may also want to avoid withdrawing too little too long, and risk missing out on important experiences during the early retirement years.

While the often-cited 4% rule for a 30-year retirement offers a simplistic guideline, scholars and experts continue to debate whether it may be too much. Or not enough. The rule suggests that a retiree should withdraw 4% of

savings a year for living expenses to have the best chance of not running out of money. It doesn't help that this ruling is an average, and every retiree has different plans for retirement.

One thing is certain, however. Your initial withdrawal rate (taken in the first year of your retirement income plan) can have a dramatic impact on how long your portfolio may last. This means it is important to start off with a rate based on realistic expectations.

Understanding two essential facts about withdrawal rates may help.

1. The anticipated average rate of return is not enough to consider when determining sustainability.
2. The year-over-year returns experienced by the portfolio is critical to long-term success.

Basing sustainability decisions solely on the premise of expecting to be able to achieve a 7% average rate of return over time, an investor may believe a 4% or 6% withdrawal rate is safe. But averages alone do not give the full picture.

Market volatility or negative returns during the early years can prematurely deplete a portfolio. This may make it difficult to increase your income later—and perhaps jeopardize your future financial well-being. Therefore, taking a modest approach regarding an initial withdrawal rate may be a prudent choice.

**Your financial advisor understands that throughout your retirement your situation and needs will change, as will the markets. By reviewing your portfolio on a regular basis with you, he or she can help make adjustments along the way, using proven strategies, to keep you on track to enjoy financial security throughout retirement.**



# Cash — What's the perfect balance for a portfolio?

**Cash is one part of a healthy investment portfolio. A cash reserve may come in handy in the case of unexpected life events or gaps in your cash flow, while giving you the liquidity to pursue investment opportunities.**

As interest rates are increasing, it's important to understand the tools at your disposal to help you get the most out of an asset like cash.

What's also important is understanding the different types of cash and the roles that they play. These include operating cash, which you need to live on; cash reserves, for using within six to 12 months; and investable cash, used to meet the long-term objectives for your cash needs, such as cash needed in retirement.

family to have a frank and honest discussion about your budget.

While it's important to have an idea of what you're spending monthly, your expenses can vary significantly from quarter to quarter.

## Thinking about switching to cash?

If you are thinking about moving investments to cash, one thing to keep in mind is that when inflation is high, sitting on excess cash will normally result in negative real returns. Here are some questions to consider:

- What is my plan for getting back into the markets?
- What are the tax implications of my decision?
- Where should I direct my savings in the meantime?
- How long can I afford to be out of the market while helping confirm my goals are still achievable?
- How will I know when (and if) it's safe to get back into the stock market?
- If I re-enter the market, how can I be more comfortable with volatility in the future?

History tells us that it is generally a bad decision to sell in down markets with the hope of timing your way back into the market with good results. With that said, market volatility can provide opportunities to find some bargains and even offset some gains with losses.

## Making cash work

The key to successfully managing cash and investments is to establish one convenient and flexible account as the foundation for your finances. The

new RBC Dedicated Cash Management Account can provide this foundation. It's an account that provides you with what you need when you need it.

This account separates your operating cash from your investable cash. It all works like a bank account—allowing you to pay bills, deposit recurring checks and withdraw cash while avoiding impacts to your long-term investment strategy.

## Liquidity can come from credit too

Having a line of credit can also give you some agility in your cash flow management. There's no cost to having a line of credit in place like RBC Credit Access Line offered by Royal Bank of Canada—no interest charges until you initiate a credit advance or reports that go back to your credit bureau.

Usually, interest rates are lower for securities-based lending against your portfolio. And some of the interest on a securities-based line of credit may be tax deductible if it's used to substantially improve your home. Please consult with your tax advisor for deductibility.

While there are stipulations you need to investigate based on your unique case, an RBC Credit Access Line may be an effective backup as well as a tool for accessing liquidity.

## An ongoing discussion

How much you set aside in cash should change as your needs and lifestyle evolves. The important thing is to make sure your cash reserves are on the agenda whenever you're revising your overall investment strategy. Cash requirements should be a continuous topic of discussion with your financial advisor.



Understanding your objectives, short- or long-term, and working with your financial advisor can help you attain your life's goals with a well-thought-out plan.

## Knowing how much is enough

Three to six months of cash is what you always want to have on hand; however, there are cases where it's advised to have 12 months available if you feel like you have more risk in your life.

The exact amount varies from family to family and lifestyle to lifestyle, and it might be a good idea for your



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- You will be required to deposit additional cash or securities, or pay down the line of credit, should the value of your securities decline below the percentage equity you must maintain or the percentage equity you must maintain increase. During a market downturn in which the securities in your portfolio decline in value, the percentage equity you must maintain will cause your losses to be greater than if there were no loan against your portfolio. Your losses can exceed your original collateral amount.
- You are not entitled to an extension of time to satisfy equity percentage requirements.
- Should you be unable to maintain the required percentage equity, some or all of your securities may be sold without prior notice to you. In the event of such a sale, you will not be entitled to choose which securities are sold, your long-term investment strategy may be interrupted and you will be responsible for all resulting fees and tax consequences.
- Royal Bank of Canada may increase equity percentage requirements at any time without prior notice to you and may require you to pay down your line of credit, in part or in full, at any time and for any or no reason.
- The rates, terms and conditions of your RBC Credit Access Line are subject to change in accordance with the terms of the RBC Credit Access Line agreement.
- Should the rate of your RBC Credit Access Line be set to float against an index, you will be subject to greater interest costs in a rising interest rate environment.

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