

# INVESTOR'S Edge



Wealth  
Management

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An exclusive newsletter for RBC Wealth Management clients

## Growing a business through a pandemic

The COVID-19 pandemic took its toll on small businesses in 2020, but when the new year passed with the pandemic still a global issue, small business owners reported they intend to grow their business in 2021. That was back in December and January, prior to approval of the American Rescue Plan Act of 2021.

Recent reports show that the GDP increased at a 6.4% annualized rate in the first quarter of this year, according to the U.S. Bureau of Economic Analysis. And the Global Mergers and Acquisitions team at RBC Capital Markets reports we are currently experiencing strong merger and acquisition activity as businesses position themselves in “the new normal.”<sup>1</sup>

The saying goes that it takes money to grow money, and for some small business owners, financing doesn't need to be a huge challenge. If you're in the market to grow your business through an acquisition, forming an alliance or partnership with another company or growing organically during this period of new normal, consider the following options for funding your business growth.

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<sup>1</sup> <https://newsroom.cnb.com/en/business/growth/mergers-and-acquisitions.html>

## Growing a business through a pandemic, continued

### Finding available financing

After the 2008-09 financial crisis, experts in the industry saw businesses begin hoarding cash. However, if you are a new small business owner, or used that cash to keep your doors open during the pandemic, there's a good chance your company may not have liquid assets available to fund your growth of acquisitions, equipment, personnel or even technology upgrades. But there are ways to find funding, and loans may be at the top of your list, especially with today's low interest rate environment.

The [Small Business Administration](#) does a lot of work with helping small business owners find loans specific for their situation. The site includes information about loan types, vendor match opportunities and even grants that are available.

### Borrowing against or selling securities

You may also be able to leverage personal or business assets to secure a loan. Be sure to discuss your options with your financial advisor to help determine what makes the most sense for your personal and business needs.

For example, with RBC Credit Access Line, offered by the Royal Bank of Canada, you could borrow against your personal and/or business' taxable assets, if eligible. While it may be a good idea to keep personal and business finances independent of each other, frequently small business clients use a Credit Access Line against their personal assets because the investment is larger.

Selling of assets to generate revenue is also an option you could discuss with your financial advisor. When determining if borrowing versus selling investments makes more sense for your financial picture, use the following Break Event Point formula. The Break Even Point (BEP)

is a calculation of interest charged versus capital gains taxes paid and does not take risk appetite, investment strategy or human anxiety into account. It can best be described as the point at which the mathematical cost of borrowing exceeds capital gains. The formula is quite simple:

$$\text{BEP} = (\text{Capital gain} \times \text{tax rate}) / (\text{Loan amount} \times \text{interest rate})$$

BEP is expressed in terms of years it will take you to break even between the two options.

To determine your capital gain, take the price sold (minus any commissions paid) minus your basis (the original price you paid). The difference is your capital gain. Next, you need to determine your long-term capital gains (LTCG) or short-term capital gains (STCG) tax rate.

LTCG is applicable to securities held for more than one year and is taxed at a rate of up to 20%. More specifically, the LTCG rate for 2021 is 20% for married couples filing jointly with a taxable income > \$501,600, or 15% for couples with taxable income > \$80,801 but < \$501,600.

In contrast STCG—or gains on securities sold that have been held for less than one year—are taxed at the rate of your personal income tax bracket with the highest possible being 37% for married couples filing jointly with taxable income > \$628,301 (although five of the seven STCG tax brackets exceed the highest possible rate you would pay on LTCG). If you are unsure, your tax or financial advisor should be able to tell you whether you would have LTCG or STCG on the sale of your investments as well as your applicable tax bracket.

Another factor to consider is that interest paid on a loan for business expenses may be tax deductible, whether it is a Credit Access Line or an unsecured loan.

### Making decisions

When faced with many financing options, it's important to consider both your personal long-term financial picture, as well as the financial picture for your business. Your financial advisor can help you review your options compared with your financial goals.

It's a lot of work to run a business, and even more work to grow one. Use your trusted professionals and your financial advisor to review the opportunities available to you to make your business stronger.

# Four questions to ask your financial advisor about ESG investing

When it comes to managing your portfolio, no advisor has all the answers—but it helps to know the right questions to ask.

If asking the right questions about ESG is the key to unlocking a sustainable financial future, which ones should you be posing to your financial advisor? Here are a few ideas to get you on your way.

## 1. I'm new to ESG—what is it and how do I get started?

ESG principles are essentially a more comprehensive way to look at a company or investment, beyond just profit or loss numbers on a balance sheet. By encompassing non-financial information, ESG factors give you a richer view of a company's risks and growth prospects.

When reviewing investing opportunities, it's important to ask questions such as: Does an organization have a large carbon footprint? Are they a company with humane and safe working conditions? Do they have diversity of race and gender among the leadership ranks?

"Job one is to get educated," says Angie O'Leary, head of wealth planning for RBC Wealth Management. "Our surveys have found people are extremely interested in ESG and are looking to their financial advisors to learn more, so that comes first."

## 2. How do ESG factors impact the risk in my portfolio?

This is really what ESG investing is all about: recognizing the real risks that are present in your portfolio and making a personal judgment about whether you're comfortable with those risks or not.

Measuring all this global data can be highly technical. But, RBC Wealth Management's partnership with ESG data providers like Sustainalytics can do the heavy lifting. Financial



advisors can work with the data to come up with a portfolio that helps you sleep at night.

"Every investment portfolio holds some level of ESG risk," says Kent McClanahan, vice president of responsible investing at RBC Wealth Management. "The real issue is what level of risk you're comfortable holding. If you haven't evaluated that, you're flying blind on the topic, so it's important to have those conversations with your financial advisor."

## 3. Will ESG screening hurt my returns?

This is one of the very first questions advisors hear, and for good reason. You want to invest in companies and themes that are good for the planet, but you don't want it to harm your own long-term financial security.

In a recent report, research firm Morningstar explains, "Sustainable funds outperformed their conventional fund peers in 2020," with three- and five-year results looking similarly powerful. This past year, three-quarters of sustainable funds finished in the top half of their categories categories, the report added.

"Integrating ESG into a portfolio didn't hurt returns, and that was really borne out in 2020," says McClanahan. "It was a banner year from a performance perspective. That has been very encouraging."

## 4. How can I align my investment portfolio with my values?

Your values and goals are unique to you. You'll want to sit down and discuss these with your financial advisor before constructing your portfolio.

Once you and your planner are on the same page, you can start putting your values into practice. There are a couple of different ways to approach this. One is through a negative screen, where you identify companies that don't align with your values and remove them from your portfolio. Another is a positive screen, where you actively invest in companies that align with your goals and values.

For most investors, a simpler approach is to identify the right sustainable funds for you. A fund will reduce the need to analyze individual stocks and spread out risk by holding a large basket of equities.

### Set up a meeting

Use these four questions to get you started on your ESG investing journey with your financial advisor so you can author the story of your own portfolio, which can lead to a positive impact for both you and the planet.

## Executing your spouse's estate

Executing an estate takes time and patience. For many families, it may be two years before the entire estate is settled completely. If you are the surviving spouse and executor of the estate, it's important to prepare for the time this process takes.

### Will versus trust

Many families have a will because they're quite simple to set up. If you're the executor of a will, it controls how you'll distribute assets. A will must first go through probate court, which is a legal process formally appointing you as executor to administer the deceased's estate.

A revocable trust is similar to a will in that it guides you in how to distribute assets, but it skips the probate process. Clients with larger and more complex estates with multiple properties in different states often choose revocable trusts, for privacy and probate avoidance.

While trusts don't require court oversight, as the trustee, you do have a fiduciary duty to administer the assets listed in the trust as specified in the document.

### Tips for getting started on estate management

Once you're in position to oversee an estate as trustee, or named by probate court for a will, it's time to prioritize management of the estate.

- Engage a team of professionals to help you. A lawyer can help with probate court, and getting the estate tax ID or EIN number established for the trust.
- Notify financial institutions, government agencies and billing companies (like utilities) about the death. This will help you manage and close accounts as appropriate.



- Collect and transfer the assets located within the will or trust. You're responsible for managing those assets as guided by the wishes listed in the will or trust until distribution.
- Distribute the assets. Emotions often increase when it's time to distribute household property, especially in larger families. For assets not specifically identified in the trust or will, it's a good idea to have all family members agree on a system you'll use to distribute the assets before starting. It could be simple, like drawing a name out of a hat for items one at a time, and then reversing the order when finished, or providing all family members with numbered cards they can attach to household items prioritizing their interests. Once everyone agrees on a system, it helps move the process forward.

### A checklist for managing an estate

- Get 20 or more original death certificates from the funeral home or the county where the person passed away to assist with anything requiring a title change. It takes time and money to get them at a later date, slowing the process down.
- You'll be responsible for overseeing payment of estate taxes and ongoing expenses. If your spouse was retired and paying estimated taxes on a quarterly basis, as executor of the estate you'll now be responsible for managing those payments up until date of death.
- Assets in the estate may benefit from a step-up value. If securities or real estate are in your spouse's name, you have two options to set a new valuation for those items: the date of death, or an alternative valuation date of six months after the date of death. Keep in mind, if market values change significantly between the two dates, it may affect the value of the asset and possibly estate taxes. Work with your attorney and CPA to determine the best plan for the estate.
- You have a fiduciary duty to follow the word of the will or trust. Relatives may not agree with decisions you make, and legal action is a possibility. Negotiation and mediation are two ways to help family members reach an agreement.
- Establishing and managing a trust can be complex. You may want to consider partnering with a professional trustee who has the experience and resources to handle all of the details and requirements of trust administration and the objectivity to make impartial decisions.

## Get to know your 401(k) a little better

Friday, September 10, is National 401(k) Day. The Friday after Labor Day was chosen so Americans can celebrate the achievements of the labor movements on Monday, and celebrate retirement at the end of the week.

Nationwide, the goal of the holiday is to promote retirement savings education, and for business owners, it's a great opportunity to promote your company's benefits package and work to increase employee engagement with your business retirement plan offerings.

However, for the individual, National 401(k) Day is also a good opportunity to review your personal 401(k) plan. For example:

- **Do you know what funds your 401(k) is invested in?**
- **Are you in an actively-managed account, or something set up for a targeted retirement date?**
- **Is your 401(k) meeting your risk comfort level, or is it time to reevaluate your 401(k) investments as part of your overall portfolio?**
- **Are you fully funding your 401(k), funding it enough to get your employer match, or needing to make changes in your contributions?**

These are all good questions to consider on Sept. 10 while reviewing your 401(k) plan. For many families, their 401(k) is one part of a larger investment and retirement savings plan. It's important to evaluate your 401(k) both as an individual



item, and also as part of your entire wealth plan picture. For example, is your 401(k) by itself designed to handle market swings? And when tucked into your entire wealth plan picture, does it help keep the overall portfolio balanced?

Another aspect to consider as part of 401(k) Day is strategizing your withdrawals from your 401(k) account. Generally, withdrawals are available penalty-free starting after you reach age 59½. There is an exception to allow withdrawals at age 55 penalty-free if you have separated from service, but many plan administrators allow this with a one-time only withdrawal. If you are interested in pursuing early withdrawals, you'd have to determine what annual income you'd need from your 401(k), how many years you'd need it before other incomes may become available, and if the tax burden on the amount for multiple years is worth the price of the withdrawal.

When you reach age 72, required minimum distributions come into play. RMDs are on retirement accounts where pre-tax funds are contributed (like 401(k)s) and the investments are allowed to grow tax-free. The stipulation is that at age 72, retirees must begin taking annual income (based on life expectancy) out of these accounts. That income is taxed at the current tax rate. Note, RMDs are also required of IRAs, so if you plan to roll your 401(k) over into a traditional IRA when you leave your company, you will still need to plan for RMDs.

Set up a meeting with your financial advisor to review your overall wealth plan, and be sure to include your 401(k) plan as part of the review.

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After December 31, 2021, the panel banks that submit rates required to calculate the LIBOR will no longer be required to do so. The transition away from LIBOR will require changes to the way that interest is calculated on loans that use the LIBOR as a benchmark. Borrowers with affected loans will be notified of such changes in advance of them taking effect.

RBC Credit Access Line is a securities-based, demand line of credit offered by Royal Bank of Canada, an Equal Opportunity Lender and a bank affiliate of RBC Capital Markets, LLC. Subject to Credit Approval. Securities-based loans involve special risks and are not suitable for everyone. You should review the provisions of the RBC Credit Access Line agreement and related disclosures, and consult with your own independent tax and legal advisors about any questions you have prior to using RBC Credit Access Line. Considerations should be given to loan requirements, portfolio composition and diversification, time horizon, risk tolerance, portfolio performance expectations, and individual tax situations. There are important risks associated with securities-based loans that you should consider:

- 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.

RBC Credit Access Line is a non-purpose facility. The proceeds of an RBC Credit Access Line may not be used to purchase, trade, or carry margin stock or repay a margin debt that was used to purchase, trade, or carry margin stock. Royal Bank of Canada may demand repayment of all proceeds of RBC Credit Access Line advances that it has reasonable basis to believe were used to purchase or carry margin stock.

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