Markets are down – don't miss these golden opportunities

Managing Your Money

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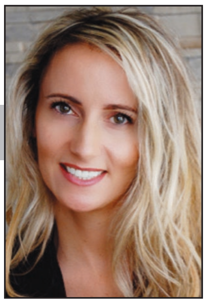
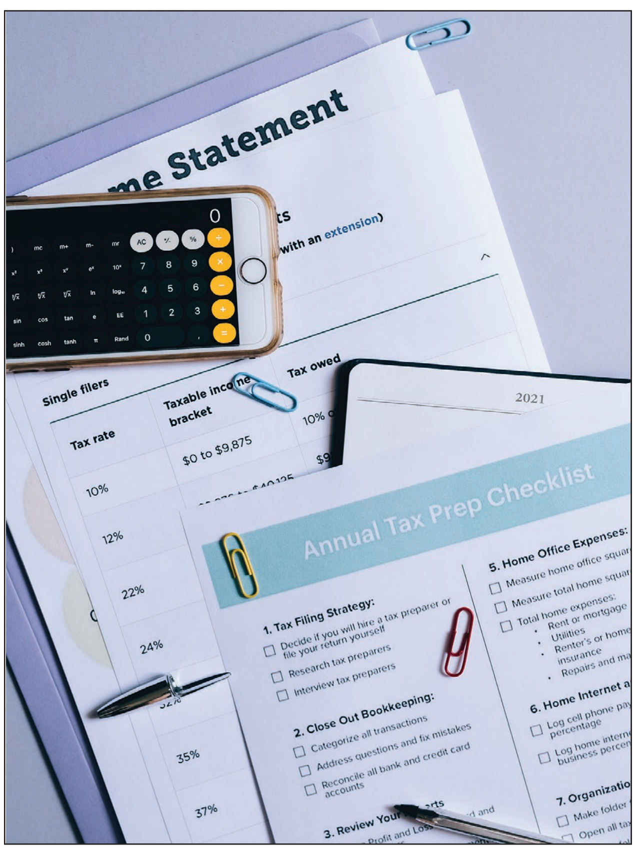


Last month, as I was shopping for outdoor furniture, I came across some chairs that I had fallen in love with last summer. With recent inflation, I was kicking myself for not buying them then. So, imagine my surprise when I clicked on the image to check the price – and they were on sale at a nice discount from last year. Why do I mention this little anecdote? Because as we continue to navigate these challenging times of inflation, market fluctuations, and uncertainty, there are opportunities all around us – we just need to look for them.

The most obvious opportunity when the markets are down takes a certain degree of intestinal fortitude: investing while markets are "on sale". Generally, buying a broad index ETF is a simple solution if you're not sure what to buy. When toilet paper goes on sale, many people stock up (especially after the PTSD we have from seeing empty shelves during the pandemic); but when the markets "go on sale", some people run the other way in fear, instead of seizing the opportunity. The very wise Warren Buffett says that investors should "be fearful when others are greedy, and greedy when others are fearful."

Down markets also present tax opportunities. One that I particularly love is using a tax loss TFSA strategy.



A down market can present beneficial tax planning strategies

Near the end of 2019 I had clients who were planning to do a renovation on their cottage up North. Knowing that they would need a substantial amount of money from their investments for the reno, we started selling investments and moving them to cash. At the time, markets were healthy, and portfolios were strong. We took what we could out of their TFSAs in an effort to avoid as much capital gains tax on their non-registered assets as possible. Lo and behold, only a few months later Covid hit – and the markets had one of the fastest drops in history. Luckily, the money for the renos was safely put aside – and this opened the door to another opportunity.

Your financial planner may assist you in identifying market opportunities

We withdrew just over $200,000 from their TFSAs at the end of 2019. Since it was now 2020, a new calendar year, we could replenish what had been removed from those TFSAs in the previous year. Some of those capital gains in their non-registered portfolio that we wanted to avoid triggering in 2019, were now capital losses! So, we sold, triggered the tax losses, and contributed the money back into the TFSAs. Then, when the markets recovered, the gains were tax sheltered!

Just to be clear let's recap:

- ✓ The sale triggered $22,000 of tax losses that reduce the taxes on current or future gains
- ✓ We replenished the $200,000 in the TFSA
- ✓ The new investment, bought low in the TFSA, was now sheltered from taxes when the markets recovered
- ✓ Double tax savings opportunity = WIN – WIN!

This strategy worked particularly well because of timing. They had withdrawn a large amount from their TFSA, so they had lots of room when the markets dropped. Many people won't have the opportunity to make such a large contribution, but this strategy can be used on a much smaller scale with annual TFSA contributions or catch-up contributions. If you have any room in your TFSA (you can verify this with CRA), look for losses in your non-registered portfolio to take advantage of this strategy. Just make sure you know the rules around TFSAs and Capital Losses – you don't want to face penalties or have your tax losses denied because of a misstep.

Down markets also present an opportunity for a tax loss dividend strategy. You can do this with no change to your asset allocation – alternatively, you can use it as an opportunity to reallocate funds into a different sector or industry. Let's say, for example, that you are holding Royal Bank stock, and it's in a capital loss position. You may choose to use the opportunity to trigger some useful tax losses, and then turn around and buy BMO, which is currently paying a slightly higher dividend yield. Again, make sure you understand the rules around triggering capital losses, and look for opportunities to get a higher dividend yield.

> "There are opportunities all around us, we just need to look for them."

I understand that it's hard to be patient as you watch these market gyrations. The bottom line is that we won't be stuck here forever. In the meantime, there are easy and safe tax opportunities of which you may be able to take advantage. I don't usually recommend making investment decisions for tax reasons, but in these cases, you can benefit on both fronts.

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