FALL 2024

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ADVICE FOR LIFE

Market Watch: Real estate affordability is improving

Focus on saving and investing

Year-end tax and financial planning

ADVICE FOR LIFE

TIPS, TRENDS & TALK ABOUT MONEY MATTERS AND YOU

HELLO!

Real estate affordability is improving

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MARKET WATCH

On October 23, the Bank of Canada aggressively lowered its policy interest rate from 4.25% to 3.75%,[1] in response to shifting economic conditions. The next interest rate announcement is slated for December 11.

Based on the Consumer Price Index, year-over-year inflation in Canada rose by 1.6% in September – the smallest such increase since February 2021 – down from a gain of 2.0% in August.[2] Falling gasoline prices were the main driver of this lower inflation rate, offsetting higher prices for rent and food.

On the labour front, employment in Canada rose by 47,000 jobs in September (an increase of 0.1%), the first notable change in several months. However, the actual employment rate declined by 0.1% as more people looked to enter the workforce.[3]

Using a standalone, seasonally adjusted annualized rate, month-over-month housing starts in Canada were down 1.3% in September, declining to 243,759 units from August's 245,972 units. Within major markets, housing starts increased in Montreal but decreased in both Toronto and Vancouver.[4]

Also in September, home sales in Canada rose by 1.9% (month-over-month) and reached their highest level since July 2023. Nationally, the Greater Toronto Area and Hamilton-Burlington, Montreal and Quebec City led the way, while Greater Vancouver and Victoria also posted positive sales.[5]

All levels of government are taking action to help Canadians buy a home in this challenging real estate market. Effective December 15, 2024, first-time homebuyers and new-build buyers will gain access to 30-year mortgage amortizations, which will lower monthly mortgage costs. As well, the price cap for insured mortgages is rising from $1 million to $1.5 million, allowing more Canadians who are limited to a downpayment below 20% of property value to qualify for a mortgage.

Lastly, the Office of the Superintendent of Financial Institutions (OSFI) is easing the burden of homeowners in Canada by eliminating the mortgage stress test when mortgages renew under the exact same terms but with a different lender. OSFI's target rollout date is November 21, 2024. These developments, along with lower mortgage rates, should help support Canadians looking to buy a home.

For the third quarter (ending September 30), Canadian stocks posted their strongest three-month performance in four years, benefiting from declining interest rates. The S&P/TSX Composite Index rose 9.7% over the quarter, with particular strength in energy and technology stocks.[6] Canadian bonds have also fared well of late, as prices move higher amid declining yields, reflecting the trend of lower interest rates.

FACT vs FICTION

Here are three common misconceptions about saving and investing.

1. Saving and investing are the same.

While both activities can make good use of your money, they're different. Saving is useful when building an emergency fund or trying to meet short-term goals. Investing is for the longer term and intended to grow your wealth over time.

2. It's fine to delay saving for retirement.

Starting as early as possible lets you take advantage of compounding, which may result in significant long-term growth and a more comfortable retirement. Delaying your efforts to save will reduce opportunities to multiply your wealth.

3. Prioritize paying off debt.

Depending on circumstances, this could be true. Although it's important to reduce debt, don't ignore saving and investing. Consider paying off high-interest debts while also saving some money for emergencies and investing to meet your financial goals.

1 https://www.bankofcanada.ca/core-functions/monetary-policy/key-interest-rate/
2 https://www150.statcan.gc.ca/n1/daily-quotidien/241015/dq241015a-eng.htm
3 https://www150.statcan.gc.ca/n1/daily-quotidien/241011/dq241011a-eng.htm?indid=3587-1&indgeo=0
4 https://www.cmhc-schl.gc.ca/professionals/housing-markets-data-and-research/housing-data/data-tables/housing-market-data/monthly-housing-starts-construction-data-tables
5 https://stats.crea.ca/en-CA/
6 https://www.reuters.com/markets/tsx-futures-edge-higher-ahead-fed-chair-powells-comments-2024-09-30/

Focus on **saving and investing.**

Most people recognize the importance of saving money and investing for the future. They make an earnest effort to build their wealth, but it's not easy when everyday life presents so many challenges and obstacles. Since financial strength and stability are important, let's look at some saving and investing tips.

Save better

A proven tenet of saving is to pay yourself first. That means taking some income (e.g., 10% of your pay) and putting it away before addressing various expenses. It might be tough at first, but soon enough you won't miss the money you're saving, as you'll likely adapt your lifestyle and spending habits to the money available. Consider parking your saved cash in interest-bearing instruments like GICs or savings accounts so you may earn some interest, and earmark part of it for an emergency fund to cover urgent expenses like home and auto repairs, or to help keep you afloat if you lose your job.

Think about creating a budget to understand where you're spending money, and how much. It's typically prudent to focus on debt reduction when possible, especially credit cards charging high interest rates. You might also look at reducing unnecessary costs, such as dining out often or buying the latest devices when your current ones remain serviceable. As well, review subscriptions and memberships to ensure you still need them, consider shopping around for the cheapest internet/cell/insurance plans that can meet your needs, and try to negotiate lower fees/rates where possible. It's also good practice to set realistic, priority-based financial goals, along with steps to help achieve them. Be mindful of changing personal circumstances, such as buying a home, having children, getting divorced, etc., as these developments could impact your budget.

As well, an Alterna Advisor can work with you to create a personalized financial plan designed to strengthen your finances. They can help you save more money through efficient budgeting and the use of tax-smart strategies. They can also incorporate debt management into your plan, such as borrowing wisely and recommending mortgage terms that best suit your needs and financial circumstances. We offer competitive mortgage rates and flexible repayment options, so if your mortgage is coming up for renewal, consider switching to Alterna.

Invest better

Once you've saved some cash, think about investing to continue growing wealth. Historically, investing in equity and bond markets has proven to build long-term wealth. You don't need much capital to begin investing – just start as early as possible to take advantage of compound growth. For example, if you own a dividend-paying stock, you may reinvest your dividends into more shares of that stock, and then those new shares will earn their own dividends. That's the power of compound growth.

One way to stay invested, reduce portfolio volatility and potentially enhance longer-term returns is to diversify your holdings across industries, asset classes, geography, etc. This investing strategy delivers on the adage, "don't put all your eggs in one basket." Last but not least, use registered plans (e.g., RRSP, TFSA) to invest tax efficiently and build your wealth more effectively.

QUICK FACT

As of March 2024, a Canadian Securities Administrators survey found 53% of investors get investing information from social media, up from only 18% in 2020. Since not all sources are credible, continue to be a careful, informed investor.

Year-end tax and financial planning

As the year comes to a close, many people are planning for family visits or holiday get-togethers, but don't forget year-end tax and financial planning. While it's always wise to keep taxes and overall finances in mind, year-end is especially important as certain deadlines approach.
Here are some examples:

Tax-loss selling

If you've realized capital gains in 2024 from selling securities in non-registered accounts, or from a real estate sale, consider offsetting those gains with tax-reducing capital losses. This is especially relevant now, as the 2024 Federal Budget enacted measures – effective June 25, 2024 – to raise the capital gains inclusion rate for individuals from 50% to 66.7% for the portion of realized capital gains exceeding $250,000. For securities with one-day trade settlement, sell your losing position(s) by December 30 to qualify as a 2024 capital loss.

Make donations

If you financially support registered charities, donate by December 31 to receive a 2024 tax credit. You may also consider donating publicly traded securities like mutual funds or stocks that have appreciated in value. You'll receive a tax receipt based on the security's fair market value, and this charitable donation won't attract capital gains tax.

Contribute to registered accounts

Year-end is a good time to review your registered account contributions. Common accounts include:

- **Registered Retirement Savings Plan (RRSP)**. Although you have 60 days after year-end to contribute, the sooner you do it, the sooner your RRSP benefits from tax-deferred growth. Each dollar contributed will lower taxable income by the same amount. If you have a lower-income spouse or common-law partner, consider a spousal RRSP. This strategy helps balance out income in retirement and ease the collective tax impact when withdrawing from your respective plans.
- **Registered Education Savings Plan (RESP)**. The RESP grows tax-deferred wealth to help cover expenses when the child attends a qualifying post-secondary institution. While there's no annual contribution deadline – lifetime contribution limit is $50,000 per child – the Canada Education Savings Grants (CESG) matches up to 20% of annual contributions (maximum $500 annually and lifetime limit of $7,200). Additional CESG top-ups may also be available annually, based on your income.
- **Tax-Free Savings Account (TFSA)**. With this account, investment growth and withdrawals are tax-free. The current annual contribution limit is $7,000, but if you don't max out you may contribute more in future years. If withdrawing from a TFSA, consider doing it by year-end. Withdrawn funds cannot be recontributed in the same calendar year, so a TFSA withdrawal in late 2024 instead of early 2025 means you may recontribute in 2025, rather than waiting until 2026.
- **First Home Savings Account (FHSA)**. This tax-sheltered account allows tax-deductible contributions up to a total of $40,000 for the purchase of a qualifying home. Currently the annual contribution limit is $8,000 per qualifying individual. Unused contribution room may be carried forward to a maximum of $8,000. If you're thinking of opening an FHSA, doing so by year-end (even without contributions) will create unused contribution room available to you starting in 2025.

Read more about registered plans and consult with an Alterna Advisor for personalized guidance.