Nexus Notes

August 2023
Vol. 28, No. 2

Featuring:

Planning for Long-Term Care

Tax-Free Home Savings Account (FHSA)

Where Have All The Boutiques Gone?

Pearls of Wisdom

Worth a Thousand Words

Invest *Thoughtfully*™

NEXUS

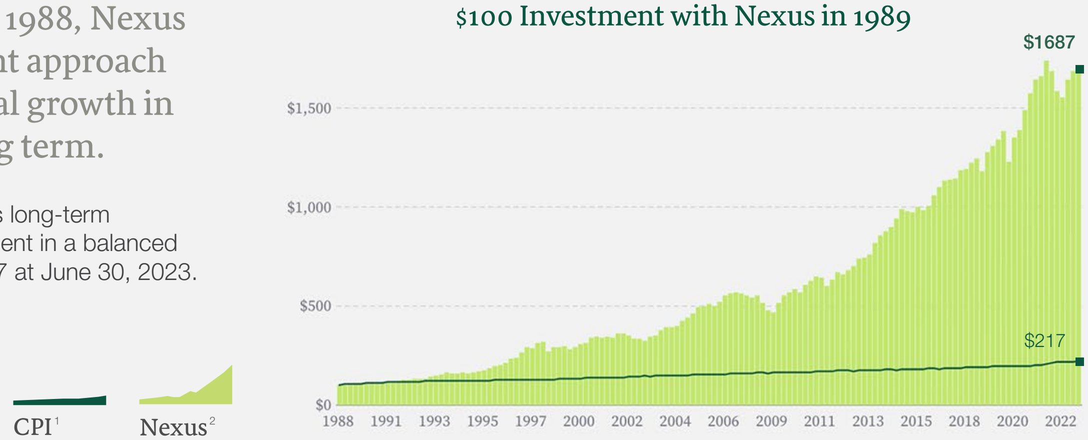
Our market-resilient investment strategy focuses on long-term results, providing investors with peace of mind through all stages of life.

Building Value for Clients

Since its establishment in 1988, Nexus has pursued an investment approach which concentrates on real growth in client wealth over the long term.

The chart illustrates the impact of this long-term investment thinking – a $100 investment in a balanced portfolio in 1989 has grown to $1,687 at June 30, 2023.

$100 Investment with Nexus in 1989



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1 "Nexus" reflects the returns of the Nexus North American Balanced Fund after September 30, 1997, and, until then, a composite of Nexus portfolios managed to a balanced mandate. Such returns are time-weighted, total rates measured in Canadian dollars and calculated after deducting such direct and indirect costs as applicable withholding taxes, trading commissions, custody fees and other fund/account expenses, but without deducting Nexus's management fees (which are charged to client accounts and vary by client).

2 CPI is the "all-items" Consumer Price Index for Canada, not seasonally adjusted.

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FROM THE EDITOR

Planning for Long-Term Care

As part of our Living to 100 series, Nexus hosted a client event in June featuring guest speaker Karen Henderson, an expert in long-term care planning. The presentation provided insights into some of the realities of long-term health care in Canada as well as how to prepare for the future as we age.

A common question people ask when planning for retirement is “How will health care costs affect me?” For many people planning for or starting retirement, the questions about future health care costs can seem quite hypothetical at first. While new retirees may currently be healthy, they are also aware that future health care could be a potential issue they will face. They might also have had some personal experience through a loved one, such as a parent, and seen firsthand some of their challenges. But when starting to think about long-term health care, it’s important to try and consider the root causes of your concerns. Some of these worries can be attributed to the uncertainty that comes with simply thinking about the future. As much as we’d like to believe otherwise, no amount of planning or financial modelling can eliminate the fear of future uncertainty.

As Karen pointed out in her presentation, when people start to ask about health care planning, what lies beneath those initial questions is usually a belief along the lines of, “I should probably look into this, but I don’t know enough.” People start thinking about their future health care needs for many reasons. Karen identified an underlying core reason that relates to a desire to maintain our independence, which includes a desire to age with dignity and control. This is often reflected in the common wish to grow old at home, where we are most comfortable. A specific goal like this can form the basis of a plan, which can help evaluate if you have the financial resources to stay in your home while managing health care concerns.

There is great value in simply starting the health care conversations, as they play a critical role in addressing your concerns. Initiating these discussions with your family and your advisors helps you to articulate what you want to happen and to prioritize your needs. You want to do this before a crisis has occurred when you may no longer be able to have the conversation. The important part is starting, and then try narrowing in on the things you can control. This will form the basis of any planning you do and the legal or financial work that will accompany it.

If you could not attend the June event, a video of the presentation is available on our website, and I recommend you find time to view Karen’s presentation.

Also in this issue, we feature some key facts and tips on the Tax-Free Home Savings Account (FHSA), Alex Jemetz showcases benefits of boutique firms, and Julie Crothers shares some Pearls of Wisdom.

Brad
Brad Weber
CPA, CA, CFP, CIM

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A Nexus Feature on: Tax-Free Home Savings Account

The FHSA is a registered plan to help Canadians save for their first home and could play a role in either your or your adult child's overall wealth strategy. While still new and officially launched on April 1, 2023, there are only a small number of institutions currently offering the account to clients. However, as more time passes and processes are put in place, FHSAs are expected to be more readily available to Canadians.

by Brad Weber, CPA, CA, CFP, CIM

At Nexus, we are committed to the financial success of our clients. We hope to have more information for our Nexus clients on the availability of the FHSA as we learn more from our custodian, RBC Investor Services Trust, and we will communicate this in the coming months. Until then, we have put together an overview of the key facts, benefits, and overall tips of the FHSA.

Key Facts:

- Account holders can contribute $40,000 over the lifetime of the plan
  - Annual contributions are capped at $8,000. Unused contribution room can carry forward to the following year, up to a limit of $8,000 (contribution room only begins to accumulate once an account is opened)
- Contributions are tax-deductible
  - The contributions must be made in the calendar year (no extra 60 days like the RRSP deadline)
  - Deductions can be carried forward indefinitely and deducted in a later tax year
- Investment income earned in the account is tax-sheltered
- Qualifying withdrawals are non-taxable
- The funds do not have to be paid back (unlike the Home Buyers' Plan)

To be eligible the person must be:

- A Canadian resident
- 18 years or older but not more than 71 years of age on December 31 of the year the account is opened
- A first-time home buyer who the government defines as: someone who did not, at any time in the current calendar year before the account is opened, or at any time in the preceding four calendar years, own or jointly own a home

What is a Qualifying Withdrawal?

- The account holder must have a written agreement to buy or build a qualifying home located in Canada before October 1 of the year following the year of withdrawal, **and**
- The account holder must intend to occupy the home as their principal residence within one year of buying or building it

Tips for FHSAs:

1. Help your children save for their first home:
   If you are able to and want to help your children buy their first home, you can gift each adult child $8,000 x 5 years. This money can then grow **tax-free** for up to 15 years after opening the account.
2. If you are close to buying your first home, it still makes sense to maximize contributions to your FHSA to take advantage of the tax deduction.
3. Keep in mind the difference between these accounts:

	FHSA	RRSP Home Buyer's Plan	TFSA
Contributions can be deducted from income	✓	✓	✗
Withdrawals have to be paid back	✗	✓	✗

When must an FHSA account be closed?

The earliest of:

- 15 years after the account was opened
- the end of the year the account holder turns 71
- the end of the year following the year the account holder makes a **qualifying withdrawal** for their first home purchase

What if the account holder doesn't buy a home?

- Any savings not used to purchase a home can be transferred to an RRSP or RRIF on a non-taxable basis. This does not require RRSP contribution room, nor does it reduce the current contribution room
- If the funds are withdrawn and not transferred to a RRSP or RRIF, the funds will be taxed
- Neither withdrawals nor transfers reinstate FHSA contribution room

Can it be used with the Home Buyers Plan?

- It is possible to use both the Home Buyers Plan and the FHSA
- The Home Buyers Plan allows Canadians to withdraw $35,000 out of their RRSPs for a first home purchase without tax consequence. The withdrawal from the RRSP must be repaid over 15 years.
- Funds can also be transferred from an RRSP to the FHSA, but subject to the annual and lifetime FHSA contribution limits. Those funds are not taxable on withdrawal from the FHSA. But they do not create a tax deduction, nor do they reinstate RRSP contribution room.

Naming Beneficiaries

- You can name your spouse as a successor holder similar to a TFSA, and the account can be transferred to your spouse's existing FHSA or RRSP
- You can list a non-spouse beneficiary, including your estate, but they will need to declare the funds they receive as taxable income

There are many benefits to the FHSA, however it might not be suitable for all circumstances. Contact our Wealth Planning team for guidance specific to you.

Where Have All The Boutiques Gone?

by Alexandra Jemetz, CIM

Where have all the boutiques gone, long time passing?

Where have all the boutiques gone, long time ago?

Where have all the boutiques gone?

The banks have picked them every one.

When will they ever learn?

When will they ever learn?

Inspired by "Where Have All the Flowers Gone?" by Pete Seeger

In 2018 we published an article entitled "Bigger is not Always Better", showcasing the many advantages of being a client of an investment management "boutique". Those benefits, among others, include "dedication to clients, better performance (particularly in down markets), less bureaucracy, crisper decision-making, more motivation and less complacency." The timing of the article closely followed TD buying Greystone Investment Management. Since then, many more "small", once independently managed, firms have fallen into the clutches of larger organizations such as banks, institutional money managers and mutual fund companies. Their marquee names – often eponymous with their founding members – all but disappeared, and after just a few years, the remnants became unrecognizable.

I came to Nexus in 2014 with 19 years of investment manager research experience. That mental "manager due diligence checklist" that I developed over that time has never left me, and probably never will. I put it into practice all the time, reflecting on activities at Nexus. So far, so good, eight-and-a-half years in.

On this checklist are a bunch of "success factors", some of which are referred to in the industry as the four "Ps": People, Philosophy, Process, Performance. To this, I add the four "Cs": Control, Co-Investment, Culture, Clarity (i.e. transparency). When something goes awry within just one of these factors, alarm bells go off. Most notably, a change in Control is a Danger, Will Robinson kind of signal.[1]

At Nexus, not only are we long-term investment managers, we're also long-term business managers. We are planners at heart, and forward-looking thought leadership is in the management's DNA. To that end, Nexus entered a partnership in 2020 with Focus Financial Partners. The shareholders sold their interest in the business in exchange for cash, a significant ongoing share of its profits, and the exclusive right to continue managing it. To both parties this is a win-win, that was inspired by the success of Focus's partnership model over what now stretches to 17 years. Harvard Business School even did a case study on Focus and this model in 2014. This is the important part: the operating Control of the business (Nexus) is contracted, effectively in perpetuity, to a new entity (NXT) established by employees of Nexus. No one can swoop in and buy NXT. We will operate independently indefinitely. NXT combines both "old" and "new" generations, thereby solving the succession quagmire that so often undermines small firms. You see the future leadership everywhere – in the halls of the office, in meetings, writing blogs, attending conferences, and speaking at events. And that future is so bright, "you're gonna need shades."[2]

Many firms have a combination of some of these success factors. But rarely do they have them all. The short of it is that Nexus checks all the boxes, which is what makes this firm so special. If you'd like to find out more about us and how we provide financial peace of mind to our clients, and experience all the benefits a true "boutique" firm has to offer, please contact us.

1) Phrase uttered by the Robot in the TV program Lost in Space to warn of imminent danger.
2) Inspired by the song "The Future's So Bright" by Timbuk 3.

Pearls of Wisdom

by
Julie Crothers, MBA, CIM, CFP

Reading is one of the principal occupations in our profession. As we digest a wide range of material, interesting ideas and surprising facts – some serious and some light-hearted – rise to the surface. We attempt to share a few of those with you in this issue of Nexus Notes.

Atomic Habits

At Nexus we often discuss the value of compounding with regards to investments. In his book *"Atomic Habits: An Easy & Proven Way to Build Good Habits & Break Bad Ones"*, James Clear focuses on the impact of consistent and deliberate action. Often when we want to make a significant positive change we think we need to take massive action. However, small daily improvements can make a significant difference.

As seen in the chart above, if you make a 1% improvement in a particular aspect of your life each day for one year, you'll finish that year 37x better.[1] These "baby steps" that are often not even noticeable can take you a great distance. On the negative side, if you let yourself slide 1% each day, you end up nearly at zero at the end of the year. Small wins or minor setbacks have the power to change your life's direction. Any small improvements in your daily choices have the power to compound exponentially to your benefit.

AI-Generated Wisdom

With AI dominating so much of the news, I thought it would be interesting to ask ChatGPT what it considers to be the best "pearls of wisdom" in books or articles. Here are the results:

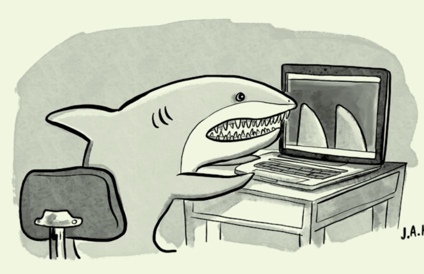
1. "The only thing we have to fear is fear itself." - Franklin D. Roosevelt in his inaugural address (March 4, 1933).
2. "The only limit to our realization of tomorrow will be our doubts of today." - Franklin D. Roosevelt. Source: Book - "The Man in the Arena: Vanguard of American Liberalism" by Bernard Bellush.
3. "The only way to deal with fear is to face it." - "The Alchemist" by
4. "It is our choices, Harry, that show what we truly are, far more than our abilities." - Albus Dumbledore in "Harry Potter and the Chamber of Secrets." by J.K. Rowling.
5. "The greatest glory in living lies not in never falling, but in rising every time we fall." - Nelson Mandela's Inaugural Address (May 10, 1994).
6. "Happiness can be found even in the darkest of times if one only remembers to turn on the light." - Albus Dumbledore in "Harry Potter and the Prisoner of Azkaban" by J.K. Rowling.
7. "The only thing standing between you and your goal is the story you keep telling yourself as to why you can't achieve it." - "Way of the Wolf: Straight Line Selling: Master the Art of Persuasion, Influence, and Success" by Jordan Belfort.
8. "Do not go where the path may lead, go instead where there is no path and leave a trail." - "Self-Reliance" by Ralph Waldo Emerson.
9. "The only true wisdom is in knowing you know nothing." - Socrates. Source: Article - Socratic paradox.
10. "In three words, I can sum up everything I've learned about life: it goes on." "The Pasture" by Robert Frost.

1) Source: JamesClear.com

Worth a Thousand Words...

A little humour makes the world a better place.

A regular feature in *Nexus Notes* is the inclusion of a topical and insightful editorial cartoon. While some may address more serious or controversial issues, we particularly delight in amusing reflections on our current society. We hope you enjoy.



"Mom, Dad, you're barely in frame . . ."

Image used with permission: Jason Adam Katzenstein, The Cartoon Bank/The New Yorker Collection)

Invest
Thoughtfully™

At Nexus, we offer thoughtful wealth planning and investment management with unparalleled personalized service to private clients and foundations.

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