



Royds Report

April 2025

Subject Line: Markets Today, Common Law Differences & Fixed or Variable Mortgages

This newsletter may be a little heavy reading, but if you are renewing a mortgage soon, if you are living common law or if you are worried about being in the stock market in these turbulent times, please read the appropriate sections. And of course, if you just like learning about markets, our laws and the outlook for interest rates, then read on.

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The Price of Admission to Try for Good Returns

Here are some facts about investing that every investor should be aware of. We hope they will help you put today's situation in perspective.

“When investors think about risk, it's the extremes that immediately come to mind...

- 1929 (Great Depression)
- 1974 (Energy Crisis)
- 1987 (Black Monday Crash)
- 2000 (Dot-Com Bubble)
- 2008 (Financial Crisis)
- 2020 (Pandemic Crash)

The commonality: fear, panic, and catastrophic losses [if you sold out of the market].

While these periods are all front and center in our minds, the **reality is that risk is always present, even if you can't always see it.** ...

There have been 30 corrections, since the March 2009, low of more than 5%. Of these, 10 were larger than 10%, 4 exceeded 20%, and 1 was more than 30%. ...

Before investing, many will tell you that they can stomach a 20% decline – they can “tolerate” such a risk. But when it actually happens, and real dollars are at stake, the true test begins. ... [It's] not pretty. And not easy to sit through while many were prophesizing that the losses would continue. ... The pandemic crash would take stocks down 35% in a little over a month, the fastest bear market in history. ... On the day of the low (March 23), the outlook was bleak... “many fear the worst has yet to come” with *experts* predicting the “biggest economic

downturn since the Great Depression.” ... All news was bad news at the time, wreaking havoc on investor psychology... If you held on through the 2020 Covid crash, it wouldn’t be long before another challenging period arose. In 2022, as the US was experiencing its highest inflation rate in 40 years, the S&P 500 fell 28% from peak to trough. ... A few days before the October low, there was nearly a unanimous consensus among economists, CEOs, and famous hedge fund managers: the US was either in or headed for a recession and the stock market had further to fall. ... And on the day of the low (October 13), the world’s largest asset manager (BlackRock) announced a hiring freeze after disclosing a more than \$2 trillion decline in its assets. ... At the same time, Barron’s [a top US Investment newspaper] was reporting that it was “hard to find anyone who feels good about owning stocks,” and that someone was buying a massive amount of VIX call options, “betting that the market will collapse.” ...

In hindsight, it’s tempting to believe you could’ve sidestepped the losses in 2011, 2018, 2020, and 2022, receiving all of the upside since March 2009 with none of the downside. But no one has shown an ability to do so in a repeatable fashion. Which means that large declines and the fear-inducing narratives associated with them are the *price of admission* for long-term investors.

What does that mean? In simplest terms: risk is the price you pay for the possibility of higher long-term reward. ...

Since 1928, the S&P 500 has generated an annualized total return of roughly 10% versus 5% for Bonds (10-Year Treasury) and 3% for Cash (3-Month Treasury Bills). After adjusting for inflation, Stocks have delivered 6.9% per year versus 1.5% for Bonds and 0.3% for Cash. ... The premium you earn from owning equities over bonds/cash is primarily due to the higher volatility and drawdowns you must stomach over time. ...In the median year since 1928, an investor in the S&P 500 has experienced a 13% drawdown at some point during the year.

S&P 500 Intra-Year Decline	% of Years (since 1928)	Happens Every __ On Average
-1%	100%	Year
-5%	95%	1.1 Years
-10%	64%	1.6 Years
-15%	40%	2.5 Years
-20%	27%	4 Years
-25%	21%	5 Years
-30%	10%	10 Years
-40%	6%	16 Years
-50%	2%	48 Years


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These are historical averages and the future will not look exactly like the past. But the overarching point is clear: if you’re a long-term investor in equities, experiencing a large decline is a matter of *when*, not *if*. ... Bearing that risk is the price of admission for long-term investors in stocks, without which there would be no reward.”

Some key takeaways: Ignore the headlines as much as you can. Trying to time the market, jumping in and out of the market, is not a winning strategy. Investing is a long-term endeavour. If you want the higher returns that stocks have provided over the long-term historically, then accepting volatility is the price one has to pay. Source: Bilello, Charlie (2025, 17 Mar). The Price of Admission, Bilello Blog.

Safe Havens? What are Our Fund Managers Doing?

“At the start of the year, Wall Street was applauding Donald Trump’s plan to reshape global trade. Now it’s rushing to find refuge from Mad King Donald. ... The **March results show that fund managers have spent the past four weeks chopping their allocation to U.S. stocks by the largest amount in the survey’s 24-year history**. Pessimism abounds, with 63 per cent of money managers expecting the global economy to weaken over the year ahead. ...

Everyone seems to be searching for the same thing – a haven from Washington’s lunacy. The traditional hiding places area already packed. Gold, the most obvious place for nervous money to bolt, has soared over the past years. Now, **at record prices of more than US\$3,000 an ounce, bullion looks stretched by historical standards**. Bonds, the other time-honoured shelter for the risk-averse, face their own issues. ... **prices for many goods are likely to rise. That could spur inflation, which is kryptonite for bond prices**. ... brave investors might be tempted to venture into more adventurous areas and look for assets that might actually benefit from Mr. Trump. ... **Bitcoin, which was supposed to blossom under the crypto-friendly Trump administration, has done nothing but fall since inauguration day. Tesla Inc. has performed even worse**. Despite the red-hot bromance between Mr. Trump and Elon Musk, shares in Mr. Musk’s company have lost more than 40 per cent of their value since the Tariff Terror took office. Source: McGugan, Ian (2025, Mar 22). Three options for investors looking to escape Trump’s turbulence, The Globe and Mail.

We haven’t seen our fund managers adding gold, Bitcoin or bonds, but they have been looking for opportunities. In the last month, the papers have been full of news about European countries increasing their defence spending but trying to avoid buying US military equipment. Do you remember in a recent Royds Report, we mentioned that one of the companies a fund manager was buying was an Italian armament manufacturer? **Our fund managers and their research analysts make strategic moves** like that for us, **so we can just stay invested where we are**.

Living Common Law Gives One Different Legal Rights about Money than Being Legally Married

About 1/5th of couples in Ontario are living common-law rather than being legally married. Many think that there’s not much difference between the 2 situations, except a ceremony, a piece of paper and legal costs to end it, but there are big differences that can affect you financially.

From a family law perspective, in Ontario a couple is considered common law if they have lived in a conjugal relationship together for at least 3 yrs, or after a shorter period of time, if they

have a child together (by birth or adoption). CRA has a different perspective (see the next section).

Here are some important differences for common law spouses that you should know about, but talk to a lawyer or do lots of research to find out more:

- **Upon separation, an equalization of family assets is not required for common law partners.** Things get more complicated, if one spouse owns the house, but the other spouse contributed to the cost of repairs, does substantial labour on the house, etc.
- Common law spouses may be able to make a claim for spousal support (alimony) on separation
- After one partner passes on, the other, **unless specified in a will or named as a beneficiary or registered as joint with rights of survivorship, may not be entitled to any inheritance of their deceased partner's property.** They may be entitled to survivor pensions, insurance proceeds or spousal support from the estate.
- Common law partners don't have the legal right to contest a will, unless they are specifically named in it. Source: <https://www.willful.co/learn/common-law-ontario>

Here's a fact you might not have expected: "it is possible to have both a spouse and common-law partner at the same time. For example, **where an individual was legally separated but not divorced and had a common-law partner at death, a tax-deferred rollover of non-registered capital properties to both the separated spouse and common-law partner would be possible.** Similarly, for RRSPs and RRIFs, technical interpretation 2006-0189141E5 confirms that tax-deferred transfers to RRSPs, RRIFs and annuities for both separated and common-law partners are permitted where rollover rules are met."

Whether common law or not, be careful not to automatically defer all taxes when someone passes on. "Tax-deferred transfers might not always make the most sense, especially where the deceased can make use of unused capital losses or low tax brackets for the year of death. ... Taxpayers can normally trigger taxes for the year of death where it makes sense to do so." It's important to consult with an accountant to determine the most tax efficient disposition of assets on death. Source: George Jr., Wilmot (2025, Feb 13). Tax and Estate Planning for Your Two Spouses, CI Global Asset Management.

Make sure you know your rights, and obligations. A co-habitation agreement can protect you and be sure to have a will, if you want to protect your common law spouse after your passing.

**Living Common Law is Defined Differently by the CRA and has Specific Tax Implications.
Watch out for Accidental Tax Fraud**

According to CRA, you are common-law if you have been living in a conjugal relationship with someone, to whom you are not married, for 12 months (with no break of more than 90 days) or if you co-parent a child. Source <https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/about-your-tax-return/tax-return/completing-a-tax-return/personal-address-information/marital-status.html>.

Tax laws are different for you if you're single or living common law or married. Some people may be tempted to declare a different marital status than their actual status, in order to benefit from these differences. Be careful that you are not committing tax fraud.

Here are some of the tax advantages and disadvantages of different marital statuses:

Two single, non-cohabitating people each have their own capital gains exemption, so each could sell their principal residence and not pay capital gains tax. **Two people in a common law relationship or a marriage, constitute a family unit, and each family unit is only entitled to a single capital gains exemption.**

Guaranteed Income Supplement may be paid to those with low income. The **GIS is based on family income, so someone who qualified as a single, may no longer qualify as part of a couple. And, the benefit per person is less for those who are part of a couple than for those who are single.** Not declaring a status change to common law or married could result in payments one isn't eligible for, and you could get in trouble for collecting government money to which you weren't legally entitled.

GST/HST credits are also lower for common law and married spouses than for singles.

If you get Social Assistance Payments that are means-tested, you might not continue to be eligible if you marry or start living common law. Not declaring a marital status change and continuing to collect benefits as though you are single is fraudulent.

If each common law partner or spouse has a private company, but there is some co-ownership, they may have to share the \$500,000 amount that is eligible for small business tax rate, income splitting rules may not be as favourable, and there could be other complications. One really needs an accountant to navigate taxes in this situation.

If you were a single parent collecting Canada Child Benefits, they could be reduced if you now have a spouse or common law partner who earns income.

If your spouse or common law partner previously owned a home, you may not be eligible for Home Buyer's Plan withdrawals from your RRSP. Source: Cestnick, Tim (2019, October 3). Canadian tax law isn't always kind to spouses and common-law partners, The Globe and Mail.

Mortgage Option – Fixed or Variable?

We get asked a lot whether people should opt for a fixed or variable mortgage, when they renew or take a new mortgage.

"Today's borrowing costs are better than they've been in a long time, with fixed and variable mortgage rates almost on par with each other. ... While interest rates are still higher than they were in their pandemic-era trough, they're down significantly from their five-year peak, which occurred in October, 2023. ... What's more, the spread between these two rate types has been

steadily shrinking and is now just a scant six basis points [6/100ths of a percent]. Fixed and variable rates haven't been priced this closely since November, 2022 ... – **variable mortgage rates are usually priced lower than fixed, and have long been considered to be cheaper over time – while fixed rates come with a built-in premium in exchange for the peace of mind they provide.** And while it might seem like a prime time to hop aboard the variable train – borrowers should be cautious in today's uncertain economic times because **future rate cuts aren't a given.** Economists had been expecting the central bank to cut at least two more times in 2025, largely in response to tariff threats. However, the February inflation numbers released this month may pause the BoC's cutting plans. Canada's inflation rate came in much higher than expected at 2.6 per cent. ... monetary policy [like changing interest rates] "cannot offset the impacts of a trade war," ... the bank would concentrate its efforts on ensuring higher prices don't lead to entrenched higher inflation.

Additional analysis from the Organisation for Economic Cooperation and Development (OECD) has forecast that in the steepest tariff scenario, **interest rates would need to rise by between one and 1.25 percentage points to counter the upward pressure on inflation,** with borrowing costs staying higher for longer. At this point in time, though, the coin could flip either way. Those who think the BoC will continue to cut, and have the risk tolerance, could see the gamble pay off in spades. And if rates do start to heat up faster than expected, **most variable mortgages can be broken for the equivalent of three months' worth of interest.** Still, that's an extra cost few borrowers are keen to swallow – and given fixed rates have finally dropped below 4 per cent, there's more incentive than ever to lock in." Source: Graham, Penelope (2025, Mar 21). Fixed, variable mortgage rates are nearly at par. Which should you choose?, The Globe and Mail.

Year to date, the S&P 500 (the US's main stock market) is down just under 5% - not terrible. So let's not panic and let's remember that selling in a down market is seldom a good strategy. Call us if you are worried. We'll send you quarter end portfolio reviews soon with individualized comments.

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