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SPEAKERS
James Gauthier, Andrew Kirkland, Pat Bolland

James Gauthier 00:15
Canadians are amazingly proud of household ownership. But with the prices of houses these days who could afford to get into the marketplace? Well, the federal government decided to do something about that. They created the first home savings account FHSA.

Pat Bolland 00:32
It's kind of a tax deal, it's kind of an investment deal. So we've got two guys, Andrew Kirkland, who is going to join us. He's the president of Justwealth, and James Gauthier is the Chief Investment Officer. They'll join us right after this break.... Andrew, James, great to see you two guys.

Andrew Kirkland 01:13
Great to see you as well Pat.

Pat Bolland 01:14
Okay, Andrew, I'm gonna start with you, because I need to know what an F H S A actually is.

Andrew Kirkland 01:21
All right. Well, thanks, Pat. Yeah, it's, it's another acronym that the we have now within the investment industry, which hopefully doesn't confuse too many people. But we have a lot of them. But anyways, the FHSA stands for first home savings account. Okay. And basically, what it is, it's an investment account or just a savings account that can be utilized, and to help people and help investors save and ultimately purchase a qualifying home, right and their first stimuli their first home. The government has a little bit of an issue with home affordability in this country. So they recently came out and one of the levers they're pulling on or allowing people to do is to open what's called an FHSA and invest money in that investment account in a tax efficient manner that is combining some of the benefits of an RSP with some of the benefits of a Tax Free Savings Account to use those proceeds towards the purchase of the primary objective being purchasing of a home.

Pat Bolland 02:19

Let's run the numbers then it's $8,000 limit a year. Correct? And that's a tax deductible?

Andrew Kirkland 02:26
Yeah, that's that is correct. So the FHSA was started in 2023. Okay, so in April this year, the government passed the into into the law that you could open up an F H, F, and F HSA,

Pat Bolland 02:40
I know I do the same thing, Andrew, trust me it's a tongue twister... ... it doesn't come off as smoothly ... it will as more time passes, but yeah, so. So basically, when it works, this year, an investor could open up an FHSA and put in $8,000 into that account, now, that contribution is going to function very similar to how a contribution would work within an RSP account. So, you can reduce your taxable income by the amount of money you contribute into that F HSA now, say for example, you do not want to use that contribution to reduce your taxable income in this particular year, you do not necessarily have to, you can use that future, you can use that contribution, that contribution receipt to bring down your taxable income in future years. So you don't have to necessarily do that. It's very similar to an RRSP. Right? So you put the money in you get a tax deduction off your income for that particularly or any year that you would like, right, okay, so now you've got the $8,000 invested on a per annum basis making that assumption, it grows, you're successful in your investing. Now when it comes out, it has to be used for a house or not. So in order for it to function, like going in, like getting the duck deduction and coming out tax free, in order for it to come out tax free has to be used towards the purchase of a qualifying home. Okay, so, first time homebuyers that's what makes it basically what makes it a qualifying purchasing a qualifying home is if you qualify to be a first time homebuyers. first time homebuyer so in that scenario, the money and that in perfect world, that's the way this all structures, so the money goes in, you get a taxable deduction on your income, money comes out. And you you don't have to pay taxes on that very much like it's combining the benefits from a tax perspective, like an RSP on the way in and a Tax Free Savings Account on the way up. Wow, that's cool. Give me a guess. If you were successful in your investing, how much money could you actually contribute? Because I saw a study recently where it would take you know, two and a half years if you're buying a house in Winnipeg, but it would take you 29 years if you're buying a house in Vancouver for the average guy .. person?

Andrew Kirkland 05:05
Yes, yeah, like ... affordaability of homes ranges across the country, obviously, in Greater Toronto Area or greater Vancouver, Victoria, you're going to need more money to get into the housing market just because of the sheer prices. But when you look at an F HSA, and that I would see that this is a potential lever that you could pull on, in, in helping towards the purchase of a home and using towards a home downpayment or whatever the such, so $8,000 each year for five years is the contribution limit. $8,000 is an annual limit, the $40,000 is a lifetime limit. So, you know, presumably there's maybe a couple, they have $40,000, each, they put in $8,000, for five years, each of them, collectively, they have $80,000 to gather plus any growth on that money. And that can that can change based on you know, if you're investing in an exchange traded fund portfolio, a stock a bond mutual fund savings account at the bank, it really depends on which account which investment vehicle you're going to proceed with for that FHSA. But that's one lever, like I mentioned, that you could potentially utilize to purchase of a home, you could also combine other levers. So as an example, we still have the home buyers plan withdrawal on an RSP account. So that's another $35,000 that somebody could potentially pull out of

their RSP tax free, almost like a loan, and then you'd have to repay that a portion of that 35,000 back over a 15 year period. So that's one lever. And then there's other levers like a Tax Free Savings Account. So, you know, theoretically, you know, if somebody was disciplined and had the wherewithal to actually make those investments and make those contributions into those account types, you could over a, you know, eight to 10 year period, you're kind of looking at a couple $100,000, potentially, depending on you know which rate of return you're getting on your investments or whatever vehicle that you are investing in. But yeah, that can that can certainly go a long way, in helping people save for the purchase of a home, it doesn't really do anything to the prices of homes, those can go fluctuate based on the particular market that you're buying a home in, or other factors. But yeah, certainly having that little, that little pot of money that you've saved for could definitely helpful when you when you ultimately do make that decision to purchase a home. You've got all kinds of levers and I guess it comes down to your situation which one you pick. But are there any circumstances where you wouldn't qualify

Pat Bolland 07:39
... for first home savings account? So for instance, I've never owned my own home? You know, I always put it in my wife's name. So I would be a candidate if you would, for first home savings account? I would I don't know.

Andrew Kirkland 07:52
So that's a great question. And so there's a couple factors one to be able the ability to be able to open an FHSA is determined by certain age requirements, right? So you have to be the age of majority in the province you live, you know, 18 - 19 years old, and you cannot be older than 71 in the year that you open up an FHSA. So that kind of puts us down that restriction that puts that restriction on age. Now, in your scenario in the question that you asked, there's, there's a lot of people who are trying to get, you know, understandings on this because everyone's situation is different, right. And we live a very big country. And there's a lot of different situations, but in your scenario where say, for example, Pat, your wife owns the 100% of your home that you live in, and you have no ownership stake in that home. Because of because you live in a home and your spouse owns it, you would not be eligible to open up an F HSA in that in this scenario. Now, say for example, you were living separately, okay. And this is maybe for somebody who has not yet in a relationship. So the main thing is, at the time of you opening up an FHSA is do you qualify? And that's basically your age? And also, you know, Have you have you been a homeowner in this year, this calendar year or the four previous calendar years if that those two restrictions are met? Yes, you can open up an FHSA as far as you know living with a spouse that in this particular year you live with that spouse and they own a home ... no because the spousal unit owns a home so you would not be able to you would not be eligible to open up an F HSA.

Pat Bolland 09:36
Okay, then go to the other end of the spectrum. Let's say I wanted to help my grandkids buy their homes because it's getting too expensive and I have the cash to do that. Can an FHS A be useful?

Andrew Kirkland 09:50
Very much so yeah. So if if this is the kind of intergenerational wealth planning Avenue right so if, if a parent or grandchild, sorry, a grandparent, a parent wants to potentially help out the next generation, they have the ability to gift that money to that next generation. And then that that grandchild or child

would be able to open an FHSA if they qualify. And based on those restrictions that we talked before, if they qualify, they could open an FHSA in their name, and then use the proceeds that was gifted to them to invest within an F HSA. So, so yeah, if a family has the ability, and the net worth, to make that type of decision and make that type of gift, they can do that. And it would could potentially help a, you know, a younger family getting started going into the housing market.

Pat Bolland 10:48
There are a lot of moving parts, though, as you point out, whether it's Registered Retirement Savings accounts, tax free savings accounts. Now the first home savings account, how should an average investor approach these products and how they all mix?

Andrew Kirkland 11:03
Yeah, so Well, I think the first thing is, if your primary objective is to purchase a home with the money you're looking to invest, an F HSA, you know, is a great spot to look at, and probably should be the number one investment account that you look at, when you're if you know, and you're and you qualify, and you're certain you're going to, you know, the main objective for those proceeds that you're looking to invest is for the purchase of a home a first time home. And FHSA makes a lot of sense when it comes to the potential other levers like a Tax Free Savings Account, and an RSP. Those, they have different factors that could potentially sway one person from investing in a TFSA or an RSP, or vice versa. And it really comes down to, you know, the tax situation that someone may be in, in that particular year that they make that contribution. And, you know, quick kind of quick math is, you know, if you think that your taxable income is going to be higher this year, than it is in the future, or retirement, put the money in the RSP get the tax right now, you know, don't pay tax on it now, and then, you know, pay tax later on. Whereas if it's switched, and you think your taxable income is going to go up in the future, it may make more sense to put the money into a Tax Free Savings Account, basically pay the taxes now, and then later at a later date takes a tax free, but those are all dependent on many factors. And in a lot of cases, personalized to your situation as to which which account side do you want to utilize for that reason? It's always it's always advisable to speak with your accountant or your financial advisor. And they can you know, they can kind of tell you what's going on with the situation in your current tax situation.

Pat Bolland 12:45
Okay, so now let's turn our attention to the actual investments of these FHA essays. And James, you're the expert in this space. What would you actually do with those funds?

James Gauthier 12:57
Well, it depends on the the outlook for each investor. So everybody probably has a different timeline, or objective, or level of certainty around when they're going to use the proceeds. So someone with a very short term, time horizon, perhaps they've already put a downpayment on a house and have a deal secured, but it's not funding for, say, six months, was something that short term, we can use something as simple as a high interest savings ETF, which is safe and secure, can still get a reasonable rate of return. Keep up with inflation. That's probably the easiest case for us to deal with. And the nice thing about coming to Justwealth, for an F H S A, is that we can draw from any of our ad portfolios to use them depending on what the purpose is. So someone for you know, a one to three year time horizon,

they say, you know, I'm not sure if it's going to be in two years or in three years, but I'm pretty sure it'll be within that three year timeframe, we can use our target date portfolios that we use for our ESPs similar to when a child knows he's going to be going to school or she's going to school in three years, we would use our target date portfolio dated three years in the future. It's the analogous argument to use it for an FHSA, you know, you're going to need it in three years, we're going to not take too much risk, but it allows you to get as much return as possible, while being expecting to take it out in three years. So it's aligned appropriately from a risk perspective. For those people that think, well, I know I want a house, you know, maybe there's still students and it's not going to be for five or 10 years, we can choose any one of our standard risk portfolios. So perhaps a balanced growth portfolio where you put it at an average level of risk not trying to hit a homerun with your, your money. You don't want to have to downsize in the future because of bad stock market returns and buy a condo instead of a single detached home. But you can take a reasonable amount of risk and as it becomes closer and closer, more apparent that you know maybe it's now one to two years, then you can shift to something more conservative. So it really is an individual case by case basis. And we'll use whatever portfolios we think are most appropriate.

Pat Bolland 15:10
Okay? You know, it's interesting. Just the other day I read an article in The Globe and Mail about the performance of robo advisors, they had a pretty good year. And Justwealth is a is, I guess, called a robo-advisor. It's not like computers do that kind of stuff. But what gives robo advisors an advantage and a good year and why?

James Gauthier 15:30
Yeah, so I think I can't remember exactly what the title was. But it was, despite a difficult year, it's been a great year for robo advisors, something like that. Yeah. And I think, I mean, a lot of it just has to do with the magnitude of the numbers. Based on the the timing of the release, everybody that was in a survey had a double digit return positive returns. So that is a good year. If you look at longer term performance, you know, that's difficult to sustain. So it wasn't an exceptionally good year. And it comes after a difficult 2022. So it is kind of welcome news. But in terms of, you know, why? Why robo advisors did well, you know, some did better than others, you know, I'm happy to report that just wealth for the third consecutive year was the top performing long term robo advisor. So I'd like to think that's not an accident. So we're quite proud of that. But you know, some other robo advisors didn't do as well, even though you know, if you have a 10% gain, that's great. But if everybody else is up by 12%, it's not that great. So you really want to read into the numbers a little bit deeper, and try and understand what it all means

Pat Bolland 16:39
Not to blow your own horn, but you had a pretty good year with your ESG, environmental, social and governance portfolio. First off, how do you select what ESG is? And then how do you manage it?

James Gauthier 16:51
Yeah, so ESG is an acronym, like, one more acronym for the financial world stands for environmental, social, and governance. So it's really just three topics that some people hold near and dear to their heart. And for those people that have a very strong belief system that they want to invest in their views

that, you know, ethically, they want to be aligned with those principles, safe for the environment, proper governance, and respect for social issues. There are some companies included in the broad indices that might not meet those criteria. So because we use exchange traded funds in all of our portfolios, ESG is no exception. We have to use ones that are qualified or designed in a way to meet those criteria. So the ETF providers create them, and there's probably, I don't know, 60, or 70, different ones that any Canadian can choose from. So we screened the entire universe and tried to pick the ones with the most strict criteria. So some will use a relative approach, like, we'll just take the best in every category, which means we might allowance in questionable companies, but they're just a little bit questionable. The other extreme is, no, we don't allow any, if you're in oil and gas, you're in fossil fuels, you're not included. That's the approach that we take, we try to find, find the ETFs that have the strictest criteria for not allowing anything that falls into those categories. And that way, it's the most pure in terms of trying to meet the objective of environmental, social and governance criteria.

Pat Bolland 18:29
You brought up ETFs that you use, it just won't open. Why would I just buy a one-size-fits-all ETF and there's several out there instead of using a robo advisor.

James Gauthier 18:43
Well, I can't speak to all robo advisors, but you know, specific to just wealth. I would say there's two reasons why you may not wish to consider an all in one or an asset allocation ETF. Number one is performance. So even though just wealth charges a higher fee than the all in one products, we have higher after fee performance across the board versus all of them over longer periods of time. So by choosing the all-in-one ETF, you would have worse performance, at least historically, compared to just well as an alternative which has risk comparable portfolios for every single category that they offer. The second reason would be you know, buying an all in one ETF or an asset allocation ETF it's it's like going to the Home Depot and buying a skill saw you're buying a product. So if you buy a skill saw thinking I'm going to build a house, you're probably going to make some mistakes and possibly die. You won't have the same experience with an asset allocation ETF but you can buy a product. It doesn't mean you know what to do with it. It doesn't come with any instructions. You can make mistakes with it as well. You don't know how to use it in the future. You don't know when to make changes. You really are on your own and investing blindly when you're using an all in one ETF and, you know, some people say, Well, I use the internet for research, you know, well, what do you use the internet to help build a home, there's probably going to be some bad advice out there, I'd say probably 90% of the information on the internet, when it comes to investing is bad. So it comes with with risks attached,

Pat Bolland 20:22
I could spend a whole show on my home renovation accidents. So I know exactly what you're talking about there. Okay, then how should an investor actually compare robo advisors?

James Gauthier 20:34
Well, it's interesting. I mean, if you look at the five year numbers, which is the longest term showed in that survey, I mean, it's not a secret, well, simple as the largest worldwide advisor in our country, they are the ones with the worst performance in the survey. So more Canadians have made mistakes in investing in robo advisors as as a classic example, that people are perhaps not doing their research,

correct. I mean, when you're when you're looking for any type of help with with investing, whether it's a traditional source or a robo advisor, you want to find someone that you can trust. And and you want to look at someone who is not going to give you the worst return. You're making mistakes, if that's, that's the result that you're getting, you need to be able to find managers that satisfy the three C's is the way I put it, you want to have something that is low cost. You want to have something that has low conflicts of interest, so people who are not selling you products for the wrong reasons, and you need to find someone that has credibility. You need to get advice from the person that you're going to advice for buying based on advertising, which, you know, one of our competitors does quite extensively is not the best reason. So you really have to do homework. Make sure the manager satisfies all of those three C's and as someone that you can trust.

Pat Bolland 21:54
James, Andrew, thank you so much.

James Gauthier 22:01
Our pleasure, Pat.

Andrew Kirkland 22:01
Thanks, Pat. It was a pleasure.

Pat Bolland 22:03
Andrew Kirkland and James Gauthier, Justweaalth Financial.