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KPW NEWSLETTER

Kleinburg PRIVATE WEALTH

Carte WEALTH MANAGEMENT INC.

IMAGINE YOUR FUTURE

"Our goals can only be reached through a vehicle of a plan in which we must fervently believe, and upon which we must vigorously act. There is no other route to success." - Pablo Picasso

REASONS TO BE AN OPTIMIST IN 2024

I recall as a child reading The Little Engine That Could. It is a children's book written by Watty Piper that has been used over the generations to deliver a message of optimism and hard work. The lessons conveyed by this book are as relevant today as they were in 1930 when it was written. It teaches us that hardship, rejection and disappointment can be overcome through perseverance. The most famous and familiar quote from the book is made by the little engine as it struggled to climb a steep grade. Puffing faster and faster it kept repeating, "I think I can, I think I can, I think I can."

For me, this story is analogous to Fed Chairman Powell achieving a nearly impossible "soft landing". Take an aerial view and you will see inflation has cooled dramatically, unemployment remains low and some pundits have publicly declared that they expect rate cuts as early as March 2024. Personally, I think this may be a little too optimistic.

Not only has the economy bounced back from the fastest recession ever, but it has done so while overcoming some intense obstacles like the war in Ukraine, oil price shocks, and political dysfunction, just to name a few.

Let me be clear that I do not believe we are out of the fire yet as the US economy continues to deal with real risks and challenges. The start of the year has been somewhat bleak. Look around the world. There are two wars being waged with disturbing casualties including the death of many civilians. Commercial ships in the Red Sea have been targeted by Houthi rebels making it difficult and costly to transport goods to and from the area.

Globally, there will be a record number of voters heading to polls in at least 64 countries which represents almost half the population of the Earth. The results, for many, may prove consequential for many years to come.

Let's not forget about an unaffordable housing market crisis, illegal immigration, and a cold war atmosphere surrounding China. Despite the obvious negatives the economy is dealing with, I can't help but notice that there are many tangible reasons to be optimistic about the economy this year.

I have been fielding many questions and concerns from clients recently about the state of the economy given all the crap going on around the world, so I thought it would be appropriate to paint a slightly different picture of what I see in our economic future.

The Way I See It.

Less than two years ago inflation had peaked to a four-decade high of 9.1% and has steadily declined to the current 3.1% year-over-year in November 2023. Unfortunately the disinflationary process is not a straight line down. It is sloppy and will include some very disappointing data points along the way, but the reality is that the road to the Fed's 2% target rate is in sight. This reduction has occurred at a remarkable pace. So quickly in fact that the Fed has stopped the rate hike onslaught we experienced at the beginning of the tightening cycle. I would even speculate that we will see inflation fall very close to the Fed target of 2% before this year is behind us.

Rate reductions are a key trigger to stimulate the economy. They would bring relief to consumers by lowering the cost to get a mortgage which would increase home sales, or to get a car loan and they would lower the cost of carrying lines of credit or credit card debt.

Another real dollar decline since 2022 is the price of gas which hovered around $5 a gallon then. GasBuddy projects the average price of gas will continue to fall in 2024, potentially saving consumers a whopping $32 billion in fuel costs.

Reasons To Be An Optimist In 2024 - Continued

The S&P 500 had a nine-week winning streak to end 2023. The last time the index accomplished this feat was back in 2004, 20 years ago! The tech heavy NASDAQ spiked 43%, just shy of its best year over the last 20 years.

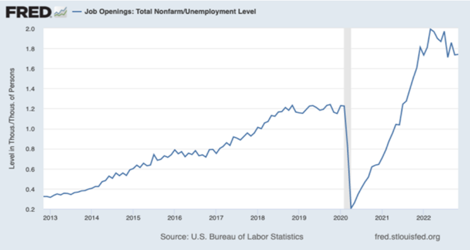
This is a good time to remind investors that the stock market is not the economy! Usually the stock market is an indicator of what investors are expecting to come. The 2023 year-end rally reflected optimism about the economy.

Let's look at some of the reasons I am feeling optimistic about the markets for 2024. A good place to begin is employment. Despite a deluge of rate hikes by the Fed, the unemployment rate still sits near a 50-year low. Initial jobless claims, a proxy for layoffs, has remained historically low. This is a sign that employers are somewhat reluctant to let go of the workers they have. Of course, this is not a widespread phenomenon. There have been significant cuts to staff in 2023 from firms like Google, Meta, Goldman Sachs and Dow.

I read the results of a survey conducted by ResumeBuilder who asked 900 leaders at various organizations with more than 10 employees about recession concerns. Around four in 10 responded that they will be conducting layoffs as they replace workers with Artificial Intelligence (AI). Dropbox, IBM and Google have already announced job cuts for that very reason.

So, while this may lead to some negative issues, it will also spur the tech sector who are creating the AI being used by various industries. AI is also expected to make companies more profitable which is always good for their stock price.

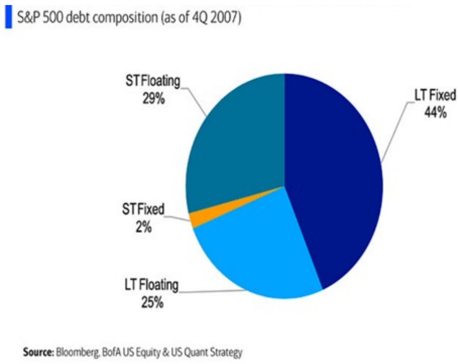
Although we are seeing a large number of layoffs, the totals remain relatively low. At least to this point they are not low enough to cause any concern. As long as layoffs remain low, the economy should be resilient enough to withstand it.



According to the Bureau of Labor Statistics (BLS) there were 10.46 million job openings listed in November. During the same period there were 6.01 million people unemployed. With 1.74 job openings per unemployed person there is no reason that anyone looking for work can find it.

Another reason to remain optimistic is that Consumer finances are very strong. One major reason the economy remains so strong despite the higher interest rates is that US consumers are still sitting on about $1 trillion in excess savings. This is what remains of the excess cash consumers have accumulated since February 2020 based on a combination of government financial support and nowhere to spend the money during the pandemic. The drawdown of this savings is a whopping $100 billion per month so it will take the better part of 2024 to go through these funds. This is a key reason I do not believe rates will begin coming down until later in the year.

Historically, corporations suffer significantly during tight money periods. Typically, rates increase which costs them more to service their debt while simultaneously sales diminish due to restrictive consumer spending habits. Not a good combination. This time it is different. Corporations are still holding a lot of debt but a great part of that debt is long-term debt with fixed rates established pre-tightening.



The average S&P 500 companies' debt maturity is 11 years. During the 2008 meltdown the average debt duration was only 7 years. Corporations were poised to withstand the rate increases over the last couple of years as they were less sensitive to fluctuations in interest rates. Since the 2008 financial crisis, S&P 500 companies have made a great effort to shore up their balance sheets. This will have a positive effect on their bottom lines.

Reasons To Be An Optimist In 2024 - Continued

We need look no further than the initial report of U.S. Q4 GDP to see for ourselves. The 2% expected growth rate came in at 3.3%. Meanwhile the Purchasing Managers Index (PMI) which gives us an indication of whether the economy is shrinking or growing, moved into expansion territory for the first time since April 2023 and reaching its highest level since October 2022. This positive news is spreading. Recent Eurozone PMI shows that manufacturing has improved to a 10-month high.

I'm sure there are those that believe an expanding economy will give the Fed cause to delay cutting rates. This might throw some cold water on the view of those expecting cuts to begin in March. I don't think March is viable but I do believe either Q2 or Q3 will produce some rate cuts. Some people believe that we require a weak economy to begin easing but I think the economy has less weight on these decisions than the real inflation rate does. Whether the economy is healthy or not is somewhat irrelevant if inflation falls into that magical 2% area.

Fed Governor Chris Waller *stated "if inflation continue to decline for several more months…we could start lowering the policy rate just because inflation is lower. It has nothing to do with trying to save the economy."*

The points I have discussed may be at least a small part of the reason we are seeing the markets perform well year-to-date. Barring some six-sigma event, I see no reason for the markets to reverse course. It may be a little premature, but I commend Fed Chairman Jerome Powell in having achieved the elusive soft-landing.

CLOSING THE LIFESTYLE GAP

Life plans are about closing the gap between current life and the perfect vision of life. These gaps exist because of our attitudes towards money. Financial psychologist Kathleen Gurney has said that “In all forms of human behavior there is a relationship between how you think and feel about a situation and how you act upon that situation. Money is no exception … money attitudes influence our behavior, aspirations, and emotional reactions to ourselves, our families, and friends” (from Your Money Personality). If life planning is about closing the gap, then life planners and their clients need to understand why the gap exists. Only then can the proper choices be made to help close the gap.

Often when closing a “lifestyle gap” we are presented with many different choices, all of which can lead to a perfect vision of life on paper; however, in the real-world some choices will work, and some won’t. The choices that will work are the ones that match best with how a person behaves financially and how they perceive money. These choices are easier to accomplish and are a better source of motivation. Alternatively, there are choices that can work on paper, but if they contradict a person’s financial attitudes, they will more than likely fail.

The concept of “financial attitudes” has been developed in detail by financial psychologists such as Kathleen Gurney. She has defined about 20 financial attitudes, but lifestyle financial planners are concerned only with the ones that influence life plans. Lifestyle planning solutions by KPW are concerned with nine including: accountability, work, spending, appearance, contentment, risk, trust, participation, and learning. We use a fancy questionnaire to gauge our client’s financial attitudes. This way, when our clients are presented with a financial choice, we can guide them towards the one that best suits their financial attitude. (Feel free to email ryan@kpwfinancial.com if you’d like me to send you one).

If this were academia, I’d spend the next several paragraphs defining each of these attitudes. Since this is a friendly newsletter article, I’ll use real world examples of how knowing someone’s financial attitude, helped determine the right choice. As usual, all names and personal info has been changed to protect the innocent.

Arnold is a client who couldn’t decide whether he should use his investments to pay off his debt now or pay it off on a 3—year debt plan at an interest rate of 9.7%. Arnold has said many times that he plans to work his whole life if he is able. He loves his work, and he loves to stay mentally and physically active. Arnold scored very high in his attitude towards work. He is also the type of person who is willing to accept responsibility for future results; his accountability score was through the roof. Arnold is a personal trainer who runs his own business, so this all made perfect sense. He is also a risk taker who is willing to see larger short-term losses, for bigger long-term gain. His attitude towards risk scored high. All in, Arnold scored high on the following attitudes: work, accountability, and risk. However, he also scored lower than average on spending, which means his is a saver not a spender.

Let’s consider how this looks on paper. Arnold’s debt carries a high fixed rate of 9.7%. Rates are probably going to drop by the end of this year, so that rate will seem even higher over the next three years. Also, to make it worthwhile, Arnold would need to earn an investment return over the 9.7%, which means taking on more investment risk. On paper, paying off the debt would improve Arnold’s cash flow and allow him to reduce his investment risk. He could then use that extra cash flow to invest back into his mutual fund plans. I find most people hate debt and don’t want additional investment risk, so this choice makes a lot of sense.

However, Arnold’s financial attitude score says differently. If I presented this choice to Arnold, I suspect, based on his financial attitude scores that he would object to using his investment savings and reducing his investment risk. The choice that makes sense on paper does not align with Arnold’s financial attitudes. Arnold would prefer to keep his money invested and take on additional risk to beat the 9.7% interest rate over the next three-years. If there is resistance to complete a planning goal, then the plan is likely to fail and the gap between life now and the perfect vision of life would remain.

CLOSING THE LIFESTYLE GAP —Continued

Dan and Roseanne are a couple in their 30s. During my discovery meeting with the couple, I learned that Dan wanted to retire at 50. Roseanne didn't mind working until 65. Right away I knew that Dan would have a low work attitude score. Like most people, when creating an early retirement scenario for the couple, it was clear that they would need a sizeable portfolio of savings (a sizeable financial bucket for those that read my articles or listen to me speak). However, often with couples, there are conflicting financial attitude scores, and this was certainly the case with Dan and Roseanne. Dan scored low on his work attitude, but Roseanne scored high on spending and appearance – she enjoys shopping for clothes and dining out at restaurants. Dan and Roseanne were spending what they needed to save for an early retirement.

On paper, the early retirement scenario is easy: save more, spend less, invest at the right risk/return, and retire early. But no amount of math or financial theory could uncover and address the attitude conflict between Dan and Roseanne. To achieve a shared vision, the couple completed an interactive "what-if" meeting to resolve the vision gap. This meeting led to better understanding and learning and ultimately fostered their shared vision of life.

I am a lifestyle financial planner, but I am not a financial psychologist. I use financial attitudes to understand why clients have a financial gap and how their behavior towards money can fill that gap. That is the kind of information that leads to good decision making in a sea of financial choices. It is disturbing to see so-called financial influencers make all-or-nothing claims about financial strategies that "everyone should do". This is dangerous and irresponsible because life is not a rehearsal.

These influencers are only seeing dollars and cents. They do not see that people are different and that some choices will only benefit the balance sheet. The best strategy is to work with a lifestyle financial planner who follows a life planning process. In doing so, you can be sure that your financial choices will align with your financial attitudes and that your vision of the future can be achieved with the least amount of resistance.

THE TRUTH ABOUT TAX REFUNDS

We are in the thick of one of the busiest seasons in our industry, as the end of this month marks the finale of the ‘sweet spot’ for RRSP contributions. This is also known as the “first 60-day contribution period”, where individuals can use January and February to play catch up for the previous year’s RRSP contributions, ultimately lowering their tax burden come April. They also have the option to allocate contributions made during this time to the current year’s tax return, the choice is theirs. These factors are at the forefront of our focus right now, and I am intrigued by the consensus in the mentality surrounding tax refunds. Much like the buy-low sell-high conundrum, it appears to me that most people have it backwards when it comes to tax refunds.

More often than not the natural reaction to receiving a tax refund is that of celebration. The psychology around this makes sense, it can feel like a pleasant surprise or unexpected bonus, something that is relied on for relief after the holiday spending spree. However, the reality is that tax refunds mean one thing and one thing only- that you paid the Canada Revenue Agency (CRA) too much tax throughout the year. As I remind my clients regularly, their overpayment does come back in the form of a tax refund, but all that they’ve done is provided an interest-free loan to the government using their hard-earned money. As I also advise my clients, there is an alternative, ways to keep your own money in your own hands. As always, my goal is not to shame or point fingers, but rather to educate our clients, working together to implement the proper planning to help them achieve their lifestyle goals.

Instead of simply preaching what is right or wrong, I’d like to take this opportunity to make some real suggestions on how to make the most of this situation. Ultimately, this additional cashflow can be used to facilitate achieving the lifestyle you want and keeping it no matter what happens. Perhaps the best place to start, is right at the source- reducing tax deductions at source.

Many people are not aware that they can inform the CRA that they will be making non-payroll RRSP contributions, and they will allow a reduction in payroll income tax deductions at source. It gets better- this is not the only way to lower taxes deducted at source. The CRA allows for certain expenses, including but not limited to alimony, maintenance or support payments, employment expenses, and interest expenses and carrying charges on investment loans, to be claimed in order to reduce the taxes you pay throughout the year. The application process is relatively simple and includes completing a form (T1213) through the CRA.

The plot thickens, as there are also many ways this additional cash flow can be used that will not impact your take-home pay. But there are caveats to this, and depending on what your goals and circumstances are this will influence what you do with this additional cash flow. As a rule of thumb, however, I will adamantly state that instead of spending these funds the priority should be to focus on debt elimination and wealth accumulation. With respect to debt elimination, it is credit cards and consumer debts that carry the highest interest rates, which work at eroding even the possibility of savings, let alone actual savings, so always target these first. Paying down your mortgage or line of credit is another valuable initiative. As always, be mindful of the terms of the mortgage contract and be sure to utilize any options available that will not incur prepayment penalties. Reducing the principal sooner and saving a significant amount of interest can have life altering benefits, ultimately enhancing your cash flow and overall net worth.

It comes as no surprise that I will also discuss savings options for these additional funds. It’s important to have easy access to emergency funds to cover unexpected events, such as a job loss, illness, or major repairs, so let this be the place to start. From here and circling back to the inspiration for this discussion is that of maximizing RRSP contributions.

As a reminder, contributions and deductions that generate tax reduction can be directed back into your RRSP contributions for the next year. Thanks to the power of compounding, the sooner you contribute, the longer you can take advantage of enhanced tax-deferred investment income.

THE TRUTH ABOUT TAX REFUNDS —Continued

Another great vehicle to direct these savings to is the Registered Education Savings Plan (RESP), which allows you to save money on a tax-deferred basis for a beneficiary's post-secondary education. Once again, earlier contributions lead to enhanced investment income and maximized government grants and bonds through compounding.

Each year, contributions of $2,500 can earn $500 in grant per beneficiary each, up until the end of the year in which the beneficiary turns 17, with a maximum grant of $7,200. If you fall behind on contributions, carry forward room allows you to contribute $5,000 in one year to attain the grant.

On a similar note, contributing to a Registered Disability Savings Plan (RDSP) can have everlasting positive impacts on your lifestyle goals. These plans can help families with planning for the long-term financial security of their relative with disabilities.

Like the RESP, early contributions can benefit from government grants and bonds and compounding investment income. Contributions to a TFSA are rarely a bad idea. The maximum lifetime contribution room in 2024 is $95,000 and with their tax-free investment growth allow for a great amount of flexibility in what these funds are ultimately used for.

On a similar note, if over the age of 18 and saving for a home, it's an ideal time to establish one of the new First Home Savings Accounts (FHSA), allowing for an annual contribution limit of $8,000 (up to $16,000 with unused carry forward) to a maximum lifetime contribution limit of $40,000. These contributions are tax deductible, and the plans can remain open for up to 15 years. And once again, the earlier you contribute the sooner your can take advantage of the tax-deferred compounding of investment income.

Decreasing the amount of taxes that are deducted by your employer can lay the foundation for having your money work for you. Breaking through the psychological barrier that leads us to believe tax refunds are a good thing can lead to a variety of lasting financial benefits. But this is only the first step, as understanding how to maximize these funds is critical in the process. There are a variety of tools and strategies available to help ensure these funds are put to work in the best way possible, and we can help. By doing so, keeping more of your own funds for yourself is a great way to get you on track to achieving the lifestyle you want.

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PROTECTING YOUR LIFESTYLE BY KPW

SIGNS STILL POINTING TO A RECESSION

Leading		Coincident		Lagging	
Yield curve	High risk	Consumer confidence	High risk	Unemployment rate	Low risk
Senior loan officer survey C and I	High risk	Housing starts	Low risk	Job openings (JOLTS)	Low risk
ISM new orders minus inventories	Medium risk	ISM manufacturing PMI	Medium risk	Inflation	High risk
30-year mortgage rate	Medium risk	Industrial production	Medium risk		
New home sales	Low risk				
Investment-grade corporate spreads	Low risk				
Financial conditions	Medium risk				
Initial jobless claims	Medium risk				

Legend: Low risk Medium risk High risk

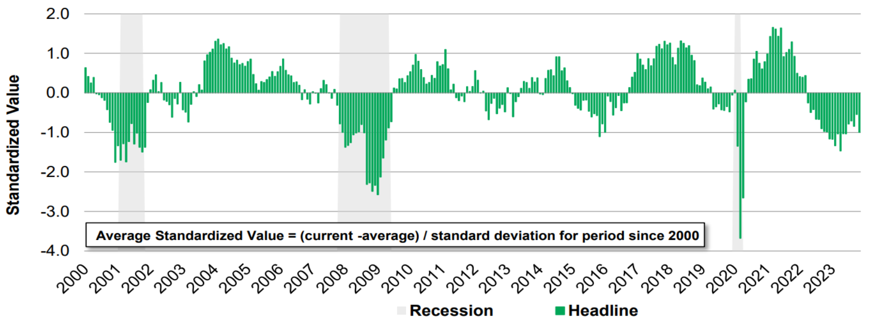
Source: Manulife Investment Management, Capital Markets Strategy. As of December 31, 2023

Manulife Investment Management

Capital Markets Strategy

U.S. Manufacturing continues to point to a likely recession

U.S. manufacturing activity avg. standardized values: ISM (National, Chicago, Cincinnati) Fed manufacturing (Empire, Philadelphia, Richmond, Dallas) indices



Source: Bloomberg, Manulife Investment Management, Capital Markets Strategy. As of December 31, 2023

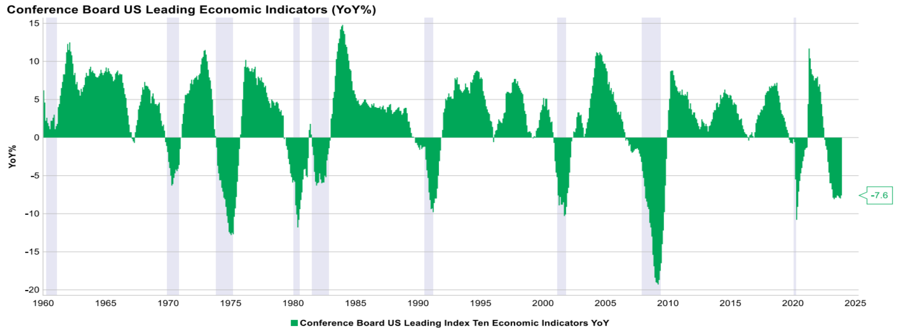
Manulife Investment Management

Capital Markets Strategy

Leading economic indicators would suggest that a recession is imminent

Historically, each time the LEI reached the current level, the economy was already in a recession.

Conference Board US Leading Economic Indicators (YoY%)



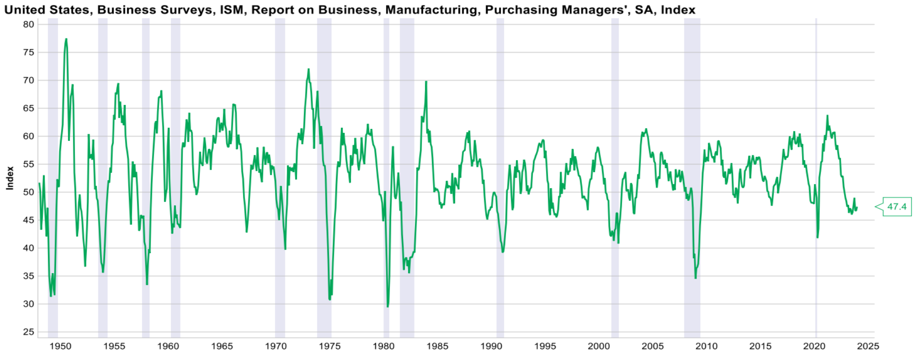
Source: Bloomberg, Macrobond, Manulife Investment Management, as of 11/2023.

Manulife Investment Management

Capital Markets Strategy

PMI rebounding but recession is still likely on the horizon

United States, Business Surveys, ISM, Report on Business, Manufacturing, Purchasing Managers', SA, Index



Source: ISM, Macrobond, Manulife Investment Management, as of 12/2023.

Manulife Investment Management

Capital Markets Strategy

Disclaimer

RESILIENCE AND OPPORTUNITIES IN CANADA'S SHIFTING REAL-ESTATE INVESTMENT LANDSCAPE

Equiton's Geoff Lang on the stability of multi-residential REITs amidst housing marketing uncertainty.

By Manal Ali

Jan 19, 2024

Significant shifts in Canadian real-estate have reshaped the investing landscape heading into 2024. As these changes play out, Real Estate Investment Trusts (REITs) centered on multi-residential apartments continue to display strength, offering a beacon of hope in a fluid economic environment that has impacted many markets.

Rapid fluctuations in single-family housing, many investors' benchmark for the relative strength of Canadian real estate, have been demoralizing amid interest-rate increases. Office, retail, and other asset types strongly linked to the now-stalled Canadian economy face near-term uncertainties of their own.

Though not completely immune to the same forces, multi-residential apartment REITs tend to have steady streams of rental income, manage diversified portfolios, and stand to benefit from the growing demand for housing solutions, says Geoff Lang, SVP Business Development at private real-estate firm Equiton. Their many advantages position them as a compelling option for investors exploring a tactical shift in response to evolving market conditions.

"Multi-residential apartment REITs have long been associated with stability and profitability in the world of alternative investments," says Lang. He emphasizes that the property type has historically posted strong results through periods of uncertainty and experiences low correlation to the performance of other asset classes.

"Multi-residential has weathered all sorts of market conditions and rewarded investors in the process," says Lang. "Reducing that volatility is exactly why investors look to the asset class."

Rental market conditions

Lang is mindful of the macroeconomic forces impacting REITs of all stripes, especially regarding property acquisition strategies and the interest-rate environment. However, for firms with an established property portfolio, he adds, these variable market conditions could offer significant prospects for growth in the coming months.

Speaking through the lens of the Equiton Residential Income Fund Trust (Apartment Fund), Lang says he does not foresee the changing times necessitating a material shift from Equiton's investment strategy thanks to the strength of its multi-residential focus. He points out that the asset class continues to benefit from substantial tailwinds like surging population growth, housing affordability issues, and supply-demand imbalances.

Nearly half of all recent household growth in Canada is attributed to rental households, according to Altus Group. This trend is now slightly moderating but remains strong due to changing demographics. "A shift in preferences towards renting, and the influx of recent immigrants also contributes to the growing demand for rental housing," says Lang.

Multi-residential market dynamics

When asked about the key factors impacting the rental market in Canada, Lang highlights the classic scenario of limited supply and high demand and points out some advantages for multi-residential REITs. This situation provides an opportunity for careful tenant selection, which is crucial for maintaining consistent rent collection. The higher interest rate environment can also lead to more properties on the market, often at competitive prices, creating opportunities for some buyers like Equiton.

"These factors support our strategies. However, we must exercise caution in our property acquisitions, ensuring we don't pay excessively. While our approach is conservative, the market currently presents exceptional buying opportunities. Few funds have the capacity to actively seek properties like we do, but it's essential to consider the prevailing interest rate environment," Lang says.

Continuity in a changing real estate environment

Equiton maintains its emphasis on strategic property acquisition within the Canadian market for its Apartment Fund. Lang explains their approach to investment, emphasizing a conservative strategy that avoids overpaying and stretching beyond their means.

RESILIENCE AND OPPORTUNITIES IN CANADA'S SHIFTING REAL-ESTATE INVESTMENT LANDSCAPE —Continued

He further details, "A recent acquisition in December 2023 illustrates our strategy's effectiveness. We assumed an existing mortgage at 2.28%, maturing in 2029. This demonstrates Equiton's proactive management style, where we leverage macroeconomic insights to identify properties with advantageous existing mortgages, ultimately benefiting both the Apartment Fund and our clients."

Equiton's primary focus remains in Ontario and Alberta, driven by strong population growth and market expertise. Lang underscores the importance of strategic acquisitions rather than focusing on geographic diversification. The firm's approach is not to buy indiscriminately but to invest where it makes the most strategic sense.

"From our perspective, one of the key challenges in the market is identifying growth opportunities or recognizing revenue gaps. An imperative metric in evaluating a fund's portfolio is the potential for rent increases in the units being purchased. Typically, our average revenue gap to market is around 30%. One of our newly acquired properties exhibited a 45% revenue gap to market.

This indicates that, assuming other factors remain constant, we can unlock value by optimizing underutilized spaces to add additional units and renovating units and common areas, giving us the ability to reduce the rental gap to market. This adds strength to our portfolio," says Lang.

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LIFESTYLE FINANCIAL PLANNING BY KPW

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INFORMATION AND SOLUTIONS FOR HIGH NET WORTH INVESTORS

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Income solutions for trusts

A trust provides a method for a person (the settlor) to give property to another person (the trustee) for the benefit of a third person (the beneficiary) while still maintaining some form of control over the property. If the intent is to provide a regular income to a beneficiary, a systematic withdrawal plan (SWP) or Series T option are worth considering.

The opportunity

Depending on the terms of the trust and the investment goals, establishing a SWP or Series T payment may be an appropriate option. This could be a case where the trustee would like a consistent income stream to flow through to the trust beneficiary to help fund various expenses (for example, a parent can set up a trust to provide an income stream to a spendthrift adult child). A SWP is a fixed-dollar withdrawal that occurs on a regular basis (i.e., monthly). At the time of each withdrawal, there's a sale of units to fund the withdrawal. This sale will trigger a capital gain or loss. A SWP is available for mutual funds and segregated fund contracts. For more information, see "Tax treatment of a systematic withdrawal plan (SWP)." A Series T fund (also known as T-Class) can provide a regular stream of tax-efficient cash flow from monthly distributions. All or a significant portion of the distribution received is likely to be considered tax-free return of capital (ROC). The payment is based on a preselected percentage, up to 6%, that's paid monthly. This option is only available for mutual funds. For a tax comparison of these two payment options, see "Comparing SWPs to Series T funds—pay tax now or pay tax later?."

What is a trust?

A trust isn't a legal entity; however, it's treated as an individual for income tax purposes and taxed separate from the settlor and the beneficiaries. Generally, both testamentary trusts and inter vivos (lifetime) trusts are taxed at the top marginal rate, which can exceed 50% in most provinces. Generally, trusts report any income earned but are entitled to an offsetting deduction for amounts paid or made payable to the trust beneficiary in that year. The beneficiary would then report this income on their tax return. If appropriately designated by the trustee, these amounts—including ROC, capital gains, taxable dividends, interest, and foreign source income—retain their character for tax purposes in the hands of the beneficiaries.

Does a systematic withdrawal plan or Series T option in a trust make sense?

Trust assets should be invested in something that's consistent with the terms of the trust and that'll fulfill its objectives. If one of the objectives is to provide a steady income stream to a beneficiary, then these options may be appropriate.

Can you do it?

Provided the trust document doesn't prohibit an investment into a mutual fund or segregated fund contract, then these investments with a SWP or Series T option are generally permissible. The trustees are guided (or restricted) in their investment selection by the terms of the trust. If the trust is silent, or where no trust document exists, the applicable provincial trustee legislation applies. All provinces have adopted the prudent person rule, which provides wide discretion in investing, if certain tests are met.

How do you do it?

First, select a suitable investment. Then establish the appropriate income option. While a SWP is available for both mutual funds and segregated fund contracts, Series T is only available for mutual funds.

If a segregated fund contract is chosen, it's important that the contract provisions are consistent with the terms of the trust. The trust should be entered as the owner. If the trust has been named (e.g., The Smith Family Trust), then that name should be used. If the estate, which is a testamentary trust itself, is purchasing the contract, then the estate should be identified as owner (e.g., The Estate of John Smith).

Given that the contract setup should correspond with the distribution under the trust, in most cases the annuitant under the contract would be the trust beneficiary.

The beneficiary under the contract shouldn't be confused with the trust beneficiary. The beneficiary under the contract would typically be the trust, so that on the death of the annuitant, the funds would be paid back to the trust and would be distributed according to the terms of the trust. Where the trust document specifies who should receive the funds from the trust on the death of the annuitant, that person can be named as a beneficiary under the contract.

The complication

Beneficiaries under a trust are income beneficiaries (where they're entitled to only the income of the trust), or capital beneficiaries (where they'd be eligible to receive the capital from the trust), or both.

The payment stream from a non-registered SWP is funded by redeeming units and will be comprised of a capital gain or loss and return of capital.

While Series T isn't funded by redeeming units, most or all of the payment is likely to be a return of capital. It's important to realize that what may be considered income for tax purposes may not be considered income for trust law purposes. From a trust law perspective, income normally includes interest, dividends, and foreign income but not capital gains, even though 50% of capital gains are included on a tax return. Capital gains and return of capital are considered capital and belong to the capital beneficiary. This divergence on what's considered income between trust law principles and tax rules creates an additional complication that must be considered. If the definition of income is included in the trust agreement and aligns with taxable income from the Income Tax Act (ITA) then capital gains can be allocated to income beneficiaries.

If the income and capital beneficiaries are different individuals, or income is not defined as taxable income in the ITA, or the trustee doesn't have a right to encroach on capital for the benefit of the income beneficiary, then the income beneficiary would only be entitled to any interest, dividends, or foreign income that the trust earns (e.g., distributions from a mutual fund reported on a tax slip).

This amount may be small, resulting in the income beneficiary receiving little income. This may not be the desired outcome and may be inconsistent with the objectives of the trust. In such a situation, these options are probably not appropriate.

If the income beneficiary and the capital beneficiary are the same person, or the trustee can encroach on capital for the benefit of the income beneficiary, or the trust agreement allows income from the trust to be treated the same as taxable income in the ITA, then these options are still worthy of consideration. However, keep in mind that the trustee has a fiduciary duty to make sure that distributions from the trust are allocated fairly between the income and capital beneficiaries, unless the trust document dictates otherwise.

Ideal candidates

Trustees who are:

- **looking for a consistent income stream for trust beneficiaries**
- **administering a trust where an investment into a mutual fund or segregated fund contract isn't prohibited by the trust and is consistent with the trust objectives**
- **administering a trust where the income and capital beneficiaries are the same person or where they can encroach on capital for the benefit of the income beneficiary**

Take action

- Determine the amount of regular income you're looking for from these funds.
- Consider using a Manulife mutual fund or segregated fund contract to provide part or all of the income needed.

INVESTMENT EXECUTIVE

FIVE THINGS TO WATCH FOR IN CANADIAN BUSINESS IN 2024

By: Craig Wong, Canadian Press—December 28, 2023

Business headlines in 2023 saw a housing crisis and the fight against inflation take center stage while the job market proved to be stronger than expected.

Housing and the cost of living will likely remain at the forefront in 2024, as will central banks. Economists expect a shift in gears to interest rate cuts as the economy softens further.

Here are five things to watch in Canadian business in 2024 as households and companies work through what is expected to be a challenging economic environment:

INFLATION AND INTEREST RATES

The inflation rate is well off its 2022 highs, but it still hasn't returned to the Bank of Canada's target of two per cent.

The central bank's key interest rate has been unchanged at five per cent since July. Inflation fluctuated somewhat in the latter half of the year, but came in at an annualized rate of 3.1 per cent in November for the second month in a row.

Economists expect inflation to continue slowing, but the Bank of Canada has continued to emphasize that it's prepared to raise rates again if necessary.

CIBC deputy chief economist Benjamin Tal said inflation was expected to cool in 2023, but the cost of services has proved to be "stickier" than predicted. For 2024, he said higher interest rates will take their toll.

"We have a tug of war between a slowing economy and inflation, and I think that in this tug of war, the slowing economy will win," Tal said.

That should put the Bank of Canada in a better position to start cutting interest rates in 2024.

However, Tal expects the central bank to keep people guessing right up to the last minute.

"I think that deep inside, they know that they're not going to raise interest rates again, but they're not going to tell you that," Tal said.

HOUSING

The spring real estate market will be one to watch this year as observers as observers hope to gauge buyers' intentions.

Canada's housing market cooled in 2023 due in part to higher mortgage rates, but demand stayed strong as the population grew. Politicians at all levels of government are facing pressure to do something about the cost of housing.

A report by RBC assistant chief economist Robert Hogue and research associate Ben Richardson expects governments to address the supply gap and reduce obstacles in the way of new housing, while lower interest rates in the second half of the year will help improve affordability, but not by much.

"The extremely high bar to home ownership across many parts of the country will put rental options in the spotlight," Hogue and Richardson wrote.

"We expect more rental supply coming to market in the year ahead in response to high rents and various incentives to prop up construction."

Still, they said it likely won't be enough.

In its forecast for this year, the Canadian Real Estate Association said it expected home sales to fall 9.8 per cent compared with 2022, then rebound by nine per cent in 2024 as interest rates eventually trend down.

The national average home price is forecast to gain 1.5 per cent from 2023 to 2024, coming in at $690,916.

MARKETS

The S&P/TSX composite is on track to post a gain for 2023 after a rally that began in late October. The market gathered steam after U.S. Federal Reserve chair Jerome Powell left traders banking on rate cuts in 2024.

Invesco chief global market strategist Kristina Hooper said 2023 was a bumpy and volatile year, but it is going to end on a high note.

"What we've seen is a growing recognition by markets that the disinflationary process is well underway and that we are likely to avoid any kind of significant, broad-based recession," she said.

But Hooper said we are going to see a slowdown over the next six months as interest rates weigh before things pick up in the back half of the year. With that in mind, she's watching cyclical sectors such as consumer discretionary, materials and industrials.

"But I have to also give the caveat that I think there's a lot of potential in technology. I think technology will benefit from the easing in rates," she said.

Lori Norman, investor specialist at Steadyhand Investment Funds Inc., says we are likely headed into a more normalized interest rate environment in 2024. And while the Bank of Canada might cut rates next year, she warned the days of near-zero interest rates are not coming back.

ENERGY SECTOR

The expanded Trans Mountain pipeline was expected to start shipping crude oil in the new year, but the long-awaited project ended 2023 facing the possibility of further delays after a regulatory setback.

Trans Mountain is expected to boost export capacity for Canadian oil, but comes as the work to limit climate change and foster the transition to cleaner energy sources ramps up. Wildfires across Canada in the summer of 2023, followed by a mild December in much of the country, underscored the consequences of climate change.

Ottawa is expected to publish draft regulations by mid-2024 for its proposed national cap-and-trade system for greenhouse gas pollution, with the final regulations expected in 2025. A draft framework released this month would see the oil and gas industry cut emissions by more than one-third by 2030 or buy offset credits.

Oil prices hovered around US$70 a barrel as 2023 drew to a close, even as sanctions continued on Russia's oil because of its ongoing war in Ukraine and the Israel-Hamas war threatened stability in the Middle East.

Invesco's Hooper noted that oil prices were well off the highs they hit in 2022 when oil traded for more than US$100 a barrel.

"It's very hard to divine exactly where oil prices go because there are so many different factors at play," she said.

ARTIFICIAL INTELLIGENCE

ChatGPT debuted in late 2022 and grew in popularity in 2023 as people experimented with generative artificial intelligence, getting a glimpse of its potential uses for work and play.

Terri Griffith, a professor at Simon Fraser University's Beedie School of Business, said we are still in the early adoption phase of AI while companies and individuals wrap their heads around the technology.

"Some organizations are saying, 'Don't you dare use these tools.' Other organizations are saying, 'How can we use these tools, how can we build our own to be customized for us?' But it's such early stages that there's a huge amount of uncertainty," said Griffith, who holds the Keith Beedie chair in innovation and entrepreneurship.

AI systems such as ChatGPT aren't without pitfalls. Cybersecurity officials have urged technology firms to ensure there are safeguards to prevent AI systems from being misused.

Griffith said there is an opportunity for the technology to help solve some real problems, and workers should focus on its potential outcomes for their jobs.

She said the personal computer took years to transform business, but that won't be the case when it comes to AI.

"This is a much faster rollout of a huge shift and it's incumbent on all of us to help pull everybody along," she said.

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PROTECTING YOUR LIFESTYLE BY KPW

Noah Blackstein has been a key member of Dynamic's Investment team since his arrival in 1997. He is lead portfolio manager for a number of U.S. and Global strategies.

We have been allocating to Noah's funds since he started at Dynamic in 1997 when he became a founding member of the Growth team. Since then, he has established himself as a successful U.S. and global growth fund manager, a reputation that's strengthened by a 25-year -plus track record of success and numerous industry awards.

Monthly Update

Our funds have continued to strengthen into 2024. This has been driven by individual company outlooks from earnings calls we have been on. In technology, the next generation of companies are direct beneficiaries of more data in the cloud, incremental AI driven workloads, and are "free riders" of hyperscale capital expenditure – reaping the benefits, but not spending the money. We are no longer just hearing of a stabilizing environment for spending, but more importantly, new resources that were never budgeted for in 2023.

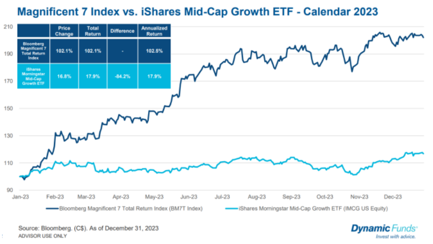
As our friend James Lee at Mizuho wrote today:

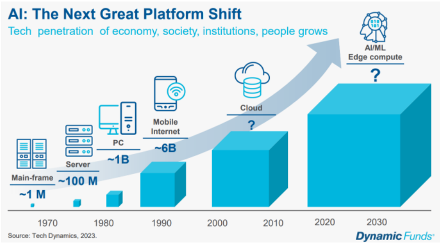
"Our checks show that enterprise customers are raising their long-term target for workloads in the cloud from an average of 40% to 70%+ due to Gen-AI. As a result, we see FY24 budgets for cloud spending shifting to 45% infrastructure services from 30% last year. These investments include large-scale data migration and upgrades in infrastructure services from legacy relational databases to vectorized data warehousing optimized for Gen-AI. With that in mind, we remain bullish that Gen-AI drives the next super cycle of cloud migration."

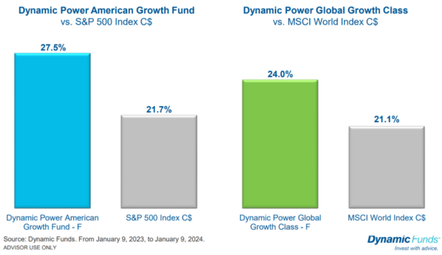
The combination of accelerating topline growth off already high bases and significant operating leverage will drive many of our technology investments. Many of these companies' stock prices have lagged the parabolic moves in the MAG-7, but they are much bigger growers in terms of sales and free-cash flow, and have significantly more long term upside potential. Outside of technology, we recently returned from Nashville visiting management teams of numerous consumer companies in the restaurant and health industry and walked away confident in the opportunities.

2023 was the narrowest stock market breadth in modern stock market history according to Bank of America. That's going to change. On Friday January 26th, the core inflation reading as measured by the Fed's preferred index rose 0.17% in December. It was the sixth month in the last seven where monthly inflation printed at a rate equal to or below the Fed's 2% target, with 6-month annualized inflation at 1.9%, and 3-month annualized at 1.5%. Inflation peaked in the Spring of 2022 and economic growth has remained solid. In 2024 The Fed will be lowering rates (to keep real rates from moving higher), while slowing down or stopping QT. Headwinds become tailwinds and money market rates have peaked with over $8 trillion of cash globally (nearly $6 trillion in the US alone). We are very excited about 2024.

The following charts are indicative of reasons Noah feels his management style will excel in the current market environment.







For more information about Noah's funds please contact us: 905-893-2540

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IMAGINE YOUR FUTURE

AMERICA STANDS ALONE

By Frederick Demers, BMO Global Asset Masnagement, Director, Multi-Asset Solutions

The U.S. economy shows unambiguous strength while much of the rest of the global economy gradually cools.

U.S. Outlook

The economic outlook for the United States is unambiguously strong—in fact, we're not even sure we can accurately speak of a gradual cooling of the American economy anymore. The key indicators have exceeded even the most optimistic expectations, and momentum is looking good to start the year. Two percent gross domestic product (GDP) growth for 2024 could be easily attained, and 3% growth is certainly a possibility for the first half of the year. This kicks a potential recession even further down the road, opening up a recession risk narrative for 2025. Fed Chairman Jerome Powell has made a point of lowering expectations for a rate cut in March,2 and if the economic data remains strong, hopes of a cut in May could also prove overly optimistic. However, the cooling of inflation is also key for the Fed's policy outlook, and encouraging progress continues to be made on that front, opening the door for policy easing.

Canada Outlook

In contrast to the U.S., the Canadian economy is definitely cooling. Recent data suggests that Canada is doing just well enough to avoid an outright recession, but it's still a weak economic backdrop, with best-case-scenario GDP growth for the year likely to come in at around 1.0%-1.5% compared to the 2.0%-2.5% range for the U.S. It's no mystery that interest rate hikes have taken their toll and that it's an unpleasant environment for Canadian consumers facing mortgage refinancing. The good news is that while the Canadian economy is cooling, it's not crashing. While the labour market can largely be expected to move sideways, the unemployment rate is rising due to strong population growth from immigration—on the order of 50,000-60,000 new people per month joining the labour force.3 That should translate into looser labour markets, which in turn could help assuage fears about inflation going into the year-end.

International Outlook

For Europe, it's the status quo—which is to say that economic activity remains stagnant, neither going up nor going down. That said, given expectations of a gradual weakening, flat numbers represent good news. Looking ahead, the Eurozone's economic picture could start to improve as the ECB begins to cut interest rates. In Japan, there has been a degree of cooling, though that may be due to the fading effects of a tourism boom; in 2023, the post-COVID reopening of the tourism industry was an important channel for economic rebound, but that temporary boost now appears to be dissipating. As a result, the Japanese economy is now normalizing.

In Emerging Markets (EM), China is the key story. While growth is not necessarily cooling, it is continuing to disappoint relative to hopes of an economic reacceleration, which has failed to materialize since the country's post-COVID reopening over a year ago. Though stimulus continues to slowly work its way through the economy, headwinds from Real Estate continue to pile on, which further dampens hopes of a sudden growth rebound

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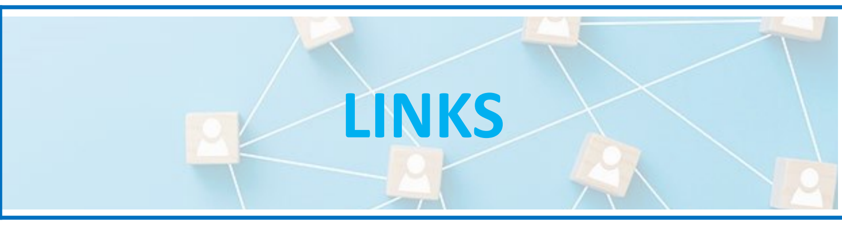

IF YOUR CLIENT IS BUYING A HOME IN 2024, READ THIS FIRST

MAGNIFICENT SEVEN: WHAT DO YOU NEED TO BELIEVE?

HOW WILL THE FEDERAL RESERVE DECIDE WHEN TO END "QUANTITATIVE TIGHTENING"?

FOUR TIPS TO GET YOUR FINANCIAL WELLNESS IN SHAPE

WHAT A POTENTIAL BIDEN-TRUMP REMATCH COULD MEAN FOR MARKETS

HOME OFFICE EXPENSES FOR EMPLOYEES, WHAT THE CHANGES ARE

OVERDUE BILLS MOUNT FOR AMERICANS AS HOUSEHOLD DEBT PILES UP

S&P 500 TOUCHES 5,000 FOR FIRST TIME. HERE'S WHAT IT MEANS FOR THE MARKET

STUDY FINDS INSTITUTIONAL INVESTORS ARE MOST CONCERNED ABOUT GEOPOLITICS AND INFLATION

DEAN ORRICO'S REIT OUTLOOK—MIDDLEFIELD'S PRESIDENT & CEO FORESEES A REIT REBOUND IN 2024

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CANADA'S INFLATION RATE FALLS TO 2.9% IN JANUARY

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Discuss the risks associated with leveraged mutual fund purchased with an investment funds advisor before investing. Purchases are subject to suitability requirements. Using borrowed money to finance the purchase of securities involves greater risk than a purchase using cash resources only. If you borrow money to purchase securities, your responsibility to repay the loan and pay interest as required by its terms remains the same if the value of the securities purchased declines.

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RETURN TO PAGE 1