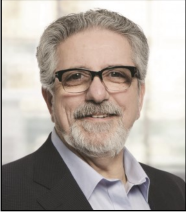
Kleinburg PRIVATE WEALTH

Carte WEALTH MANAGEMENT INC.

KPW LIFE PLAN—IMAGINE YOUR FUTURE

VOL. 12, ISSUE 2 FEB 2023

"The four most expensive words in the English Language are, 'This Time It's Different'" **-Sir John Templeton**



Sergio Simone
EDITORIAL COMMENT

Kristina De Souza, CFP
PLANNING FOR LONGEVITY

Ryan Simone, CFP, CLU, CHS
LIFESTYLE FINANCIAL PLANNING

EDITORIAL COMMENT

Sergio Simone

During the mid-70s one of my favorite sitcoms was called "Welcome Back Kotter". One of the main characters was a popular, good-looking student who was academically challenged, played by John Travolta. Whenever he was confronted with a problem, which was often, he would clutch the sides of his head and exclaim, "I'm so confused!" I'm sure there are many investors who can relate these days.

There are two popular mantras in the investment world that many successful investors have followed over the years. One is "Don't Fight The Fed", and the other is "Don't Fight The Tape", sometimes referred to as "The Trend Is Your Friend".

PLANNING FOR LONGEVITY WITH LOVED ONES

Kristina De Souza, CFP

Although this may look a little different for everyone, achieving financial wellness is something we work with our clients to achieve, across all generations. People are living longer and aging is taking on new meaning as time goes on.

Caregiving is the new reality for everyone, whether it is providing care or receiving it, it's something that impacts us all. When it comes to our senior clients, or those caring for loved ones, the conversations are evolving.

As planners, it's no surprise that planning for longevity is something we place high priority on, specifically, helping our clients to age well financially; helping them find meaning in living securely and as independently for as long as possible.

LIFESTYLE FINANCIAL PLANNING - WHAT'S YOUR NUMBER?

Ryan Simone,
CFP, CLU, CHS

Sometime around 2016, the KPW team set a goal to create comprehensive financial plans for each of our clients. Part of that decision was made after we had finally found the software that could do what we envisioned. We weren't just looking for number crunching software; rather, we wanted something that could help us frame a financial plan around an individual's lifestyle. We always believed in the value of proper financial planning and now we also had the tech to support the planning process. I was incredibly excited about getting started.

I figured out quickly that financial planning software is hard to learn. I'm talking bang your head against the keyboard hard; I'm talking openly declaring that you give up hard. There were days when I wondered what great being of the universe thought it would be a funny joke for me to try and learn financial planning software.

Kleinburg Private Wealth
91 Anglewood Ct.,
Kleinburg, ON, L0J 1C0

www.kpwfinancial.com

905.893.2540
info@kleinburgprivatewealth.com

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CONGRATULATIONS KRISTINA de SOUZA!

The face of wealth is changing: the share Canada's financial wealth in women's hands is expected to surge exponentially this decade. Reflecting that ongoing transformation and better address the needs of women in shaping their financial future, the country's wealth industry is working to bridge gaps in representation and create opportunities for exemplary female leadership.

To recognize the agents driving transformation across Canada's wealth management industry, the Wealth Professional team invited nominations for the most exceptional women leaders via an expansive survey process done in partnership with Women in Capital Markets (WCM), a national not-for-profit organization focused on building equity literacy, amplifying diverse talent, and uniting Canada's finance industry.

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TIME TO BOOK A PORTFOLIO REVIEW MEETING!

Regular portfolio reviews are a great opportunity for you to assess your progress toward your financial future and ensure that your investment portfolio continues to satisfy the conditions that were established in the **“KNOW YOUR CLIENT” questionnaire.**

It is important that your portfolio does not drift from your desired risk tolerance and time horizon. Here are four important reasons to regularly review your portfolio.

1. ASSET ALLOCATION

As an investor you should regularly examine your overall asset allocation, especially if your investment accounts are sitting with different asset managers or advisors. Markets are not static and overtime your portfolio may have drifted from its original allocation. Also, economic cycles should be factored into where you are allocating your assets. It may be time to reduce exposure in certain sectors while increasing exposure to other sectors. This is also an opportunity to align your various portfolios held with various advisors to avoid overlap or concentration risks.

2. PORTFOLIO OVERLAP

In cases were an investor uses more than one asset manager, it is likely that more than one manager has invested in a very similar asset class or individual security. This is an opportune time to revisit your weightings in certain sectors, or individual securities as this concentration can increase the risk of volatility in a portfolio.

3. CONCENTRATION RISK

Your portfolio may have recently benefited from a surge in a particular asset class that has caused an overweighting in that class. This can increase the risk profile of your overall portfolio. Even if you are a traditional buy and hold investor, you may find that over time some positions have increased significantly and now pose a concentration risk. A review of your portfolio will help determine if these holdings are still appropriate, or whether alternative options should be considered. Another consideration would be the tax consequences of making changes to your portfolio. These are all issues that your advisor can help you with.

4. PORTFOLIO HOUSEKEEPING

Now is a great opportunity to review your BENEFICIARY and TRUSTED CONTACT PERSON information. Checking to make sure these beneficiary designations are accurate is a vital part of a regular portfolio review.

To encourage you to contact our office to schedule a portfolio review, we are placing all the names in a draw and on March 1st 2023 we will select a winner of a Oculus 2, wireless virtual reality headset.

The Oculus Quest 2 is an undeniably awesome VR experience.

According to PocketLint’s review of the Oculus Quest 2: **“In our mind, there’s no doubt that Meta Quest 2 is the wire-free VR headset king. We’re hard-pressed to find almost anything negative to say about it—and if VR is your thing then we’re sure you’ll feel the same.”**

We are looking forward to meeting with you soon.!

CHECK OUT THE META QUEST 2 HERE

Kleinburg Private Wealth
91 Anglewood Ct.,
Kleinburg, ON, L0J 1C0

www.kpwfinancial.com

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info@kleinburgprivatewealth.com

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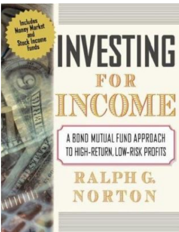
Disclaimer

BOOK OF THE MONTH

INVESTING FOR INCOME

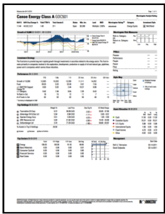
- by Ralph G. Norton



As investors continue to search for high returns, bond mutual funds are looking more and more attractive for their combinations of high return and lower risk. This text guides the reader through the complexities of the bond fund market in terms the individual investor can understand.

FUND OF THE MONTH

FRANKLIN U.S. MONTHLY INCOME FUND

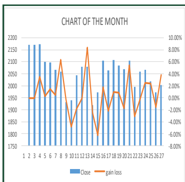


Whether you're looking for regular income to pay for monthly expenses or saving for retirement, Franklin U.S. Monthly Income Fund may be the right investment solution to help you achieve your goals.

To deliver consistent monthly income, the investment team behind the fund is uncompromising. The market trends come and go, but the team's focus on income is steadfast.

CHART OF THE MONTH

2023 TAX REFERENCE SHEET



The link will take you to a Tax Reference Sheet for 2023 provided by IA Clarington. The sheet illustrates OAS and CPP limits, GIS income requirements, Income Tax withholding rates on RRSP and RRIF withdrawals, Minimum RRIF withdrawals by age, Registered plan limits, and Tax Tables by Province. This is a handy reference tool to have.

BLOG OF THE MONTH

HOW GREED AND LEVERAGE DESTROYED THE CRYPTO TULIP MARKET

Cryptocurrencies were supposed to offer a new, virtual alternative to the current, mundane, "corrupt" system, in which a few dozen bureaucrats in conference rooms around the world – central bankers – manipulate the most important commodity of all – interest rates – the price of money.

The collapse of FTX (a cryptocurrency exchange that was valued at $30 billion just a few months ago) and the subsequent bankruptcies revealed what may have started as a kernel of sincere libertarian ideas to stand up to endless money printing and debt creation in our financial system, has been hijacked by what appears to be an immutable flaw of the human condition: our greed and desire to get rich fast.

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PRIVATE WEALTH

INFORMATION AND SOLUTIONS FOR HIGH NET WORTH INVESTORS

NEED AN ESTATE PLANNING CHECKUP? NOW IS THE PERFECT TIME

The new year is a good time to reflect on what's important to us and commit to making ourselves and our world better. Whether we make resolutions to reconnect with friends, lose weight, volunteer our time or run a marathon, chances are that we'll soon find ourselves back to our daily routines with little to show for those resolutions.

But there is one resolution that should be on everyone's list, and it isn't a hard one to fulfill. At the start of every year, we should all review and revisit our estate planning.

5 TIPS FOR REDUCING THE TAX IMPACT FOR YOUR HEIRS

Taxes and other fees can take a big dent out of your assets when you die. So, consider using insurance and other vehicles in your estate planning.

You may have been putting considerable energy into saving for retirement, but what about estate planning? If you want your assets to pass through as easily as possible to your beneficiaries, it's worth speaking to an adviser and doing some planning early on. [Read The Last Act, which covers all aspects of estate planning, from writing a will to settling and creating a trust.]

9 RETIREMENT DISTRIBUTION STRATEGIES THAT WILL MAKE YOUR MONEY LAST

Saving money for retirement is only part of ensuring a financially secure future. The other half involves making smart decisions about withdrawing that cash.

"There is no easy straightforward answer," says Chad Parks, founder and CEO of Ubiquity Retirement + Savings, a firm that provides 401(k) accounts to small businesses. Without knowing how long someone will live, it's impossible to say definitively how much a person can withdraw from retirement accounts each year without running out of cash. Instead, finance experts say there are a handful of retirement distribution strategies that can be used to stretch money further for a long retirement.

Wealth Management

FAMILY WEALTH PLANNING

Build It. Maintain It. Tell Your Family About It. This invaluable planning tool may not feature high on your list of priorities, but it should. A family inventory, prepared with attention to detail and carefully maintained over the years, can provide a record of your financial affairs to assist your family, friends and professional advisors at a time when you cannot do so yourself.

Don't assume your family is familiar with your assets and knows where they are located.

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CORPORATE CULTURE

SEVERANCE PACKAGES: 6 STEPS TO AVOID DISPUTES

Letting someone go is never easy. Designing the right severance package can make things smoother for both sides. It can also prevent a termination from turning into a nasty and costly legal dispute.

“You want to put yourself in the best possible position to have certainty about what you owe an employee,” says Jodi Gallagher Healy, who practices labour and employment law in London, Ontario.

EMPLOYER SPONSORED RETIREMENT PLANS

With the exception of Québec (discussed below), there is currently no legislative requirement for employers to establish or participate in any type of employer sponsored retirement plan for the benefit of their employees. The decision to establish an employer sponsored retirement plan is a voluntary business decision. However, where employers decide to establish retirement plans for their employees, the employer must comply with the governing legislative requirements which contain prescriptive rules regarding the operation of such plans.

WHAT ARE THE DIFFERENT TYPES OF BUSINESS INSURANCE

You’re working hard to make your business successful. But then something unforeseen happens to threaten that success.

The right business insurance, balancing risk protection and affordability, can help you continue the success from all your hard work.

The business insurance you’ll need will depend on the unique needs of your business, but here are some of the most common types of business insurance:

CREATING A BOARD MEMBER’S MANUAL

A board member’s manual can be an important resource in enabling boards of directors to be more effective. A manual, such as that suggested here, can serve a number of purposes including being an orientation resource for new members, a tool for enabling directors to keep governing documents organized, as well as evidence of the organization’s governance work. Although a board manual can be a “policy manual” which keeps all the policies in one place, as suggested here, it serves a broader function.

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FUND MANAGER COMMENTARY

JURRIEN TIMMER, DIRECTOR OF GLOBAL MACRO
FIDELITY INVESTMENTS

INTERVIEW WITH BARRON'S

Barron's: Is the U.S. economy headed for a soft landing or a recession?

Jurrien Timmer: The recession call would seem obvious here, with the Treasury yield curve the most inverted in 40 years, and the Federal Reserve intending to take interest rates above 5%.

RAFI TAHMAZIAN, SENIOR PORTFOLIO MANAGER and DAVID SZYBUNKA, V.P. & PORTFOLIO MANAGER
I.A. CLARINGTON

NOT ALL BARRELS ARE CREATED EQUAL

In 2022, the often denigrated oil and gas sector was one of only a handful that performed well against the backdrop of a global energy crisis. The crisis has helped to temper antifossil fuel rhetoric, giving way to more pragmatic, less disorderly ideas of energy transition which remains very much in the early innings.

Evolving thought around the topic has been the concept of moving from mitigation to adaptation. This was evident at COP27, the UN climate change conference held in Egypt last year. Mitigation strategies involve policies promoting renewable energy, batteries, green hydrogen, etc. However, there is a growing view that mitigation alone is not enough. Why does this matter? Canada has an opportunity to lead the way.

KEVIN HEADLAND, and MACAN NIA, CO-CHIEF INVESTMENT STRATEGISTS
MANULIFE FINANCIAL

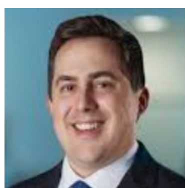
THE COMEBACK IS ON: WHY BONDS ARE BACK

After a long period in the unfashionable doldrums, fixed income has come roaring back with some tempting offerings that could be music to the ears of wealth managers. There are three parts to the asset class's comeback. First, bond yields have normalized and are looking attractive. Indeed, as Macan Nia observed, investment grade yields have not been this high in either Canada or the US since before the financial crisis.

Nia said: "We've gone almost 15 years without seeing these types of yields. They haven't been seeing these type of income opportunities in the last 10 or 15 years, especially as Canadians are getting older."

He added: "A lot of the issues in the financial markets and for financial advisors was [around] this search for yield and how we drive income for our clients that are retiring.

BRIAN CLARKE, SENIOR ANALYST & PORTFOLIO ASSOCIATE
KNOWLEDGE LEADERS CAPITAL



WHY IS THE U.S. MARKET TROUNCING CANADA YEAR-TO-DATE

So far this year, American stocks have outperformed Canadian stocks. In this post I'll look at recent performance of equities in the U.S. and Canada to understand what drove the difference between the two countries' equity performance year-to-date.

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LINKS

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KIPLINGER'S INTEREST RATES OUTLOOK: THE FED GIVES SOME CLARAITY ON RATE HIKE INTENTIONS	FANG INDEX HAS BEST ONE-MONTH RALLY ON RECORD	HOW MUCH WILL THE FED RAISE RATES IN 2023?
PERSONAL FINANCIAL TIPS FOR THE YEAR OF THE RABBIT	LOWER MORTGAGE RATES ARE BOOSTING REFINANCES	5 FACTS FOR INVESTORS TO CONSIDER
CANADIAN LABOUR MARKET SHOWS NOW SIGNS OF SLOWING DESPITE HIGH INTEREST RATES	CHINA'S REOPENING POISED TO BOOST GLOBAL GROWTH	WHAT DO CORPORATE INSIDERS THINK ABOUT THE STOCK MARKET

Cytonn *Delivering to promise*

UNDERSTANDING REAL ESTATE INVESTMENT TRUSTS (REITs)

REITs are regulated investment vehicles that enable collective investment in real estate, where investors pool their funds and invest in a trust with the intention of earning profits or income from real estate, as beneficiaries of the trust.

I'VE INHERITED A LOT OF MONEY. NOW WHAT?

First, put all major decisions on hold. A financial planner can help you come up with a plan that addresses your goals, dreams and needs.

It's no surprise that many people who inherit millions of dollars are uncertain about what to do with their newfound wealth. The possibilities of becoming a multimillionaire overnight can be overwhelming, especially during a period when most are grieving the loss of a parent or other loved one.

VIDEO AND PODCAST LINKS

CANADIANS SAY THEY NEED $1.7M TO RETIRE COMFORTABLE. BMO SURVEY	GOLDMAN NO LONGER SEES EURO-AREA RECESSION AS IT LIFTS OUTLOOK	CANADA'S HOME PRICES ONLY HALFWAY TO THE BOTTOM, WARN THESE ECONOMISTS

FINANCIAL CALCULATORS

INVESTMENT GROWTH CALCULATOR	FIDELITY myPLAN SNAPSHOT	RRSP SAVINGS CALCULATOR
Find out how much your savings will grow over time by making regular investments	The Fidelity **myPlan** Snapshot enables you to get a glimpse into your retirement finances in seconds.	Estimate how much your registered retirement savings plan will be worth at retirement

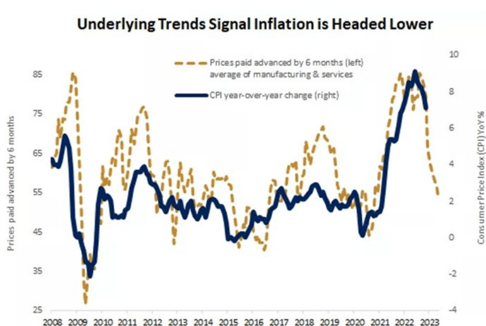
EDITORIAL COMMENT - CONTINUED

The first one suggests that you should align your investment choices with the actions of the Federal Reserve while the second one essentially advises that investors should follow the crowd and buy when everyone else is buying or sell when everyone else is selling.

Under more normal market conditions, I definitely lean towards not scrapping with the Fed. The Fed has the power to move markets with a single pen stroke or emphasis on a particular word in a speech.

Since the beginning of the year Federal Reserve Chairman Jerome Powell has been adamant on fighting inflation and he forewarned that he would do so by raising interest rates until he was convinced the economy had slowed to an acceptable level (between 2%-3% growth). The tricky part for Powell is to achieve this without tanking the economy.

Watching from the sidelines, it appears to me that he is on track to achieve the Utopian Soft-landing that everyone desires but has mostly been a fantasy in the minds of Fed Chairpersons. The following chart indicates the projected path of interest rates over the next two years. As the chart indicates, the projected peak of 5.2% is similar to the Fed's own projections.



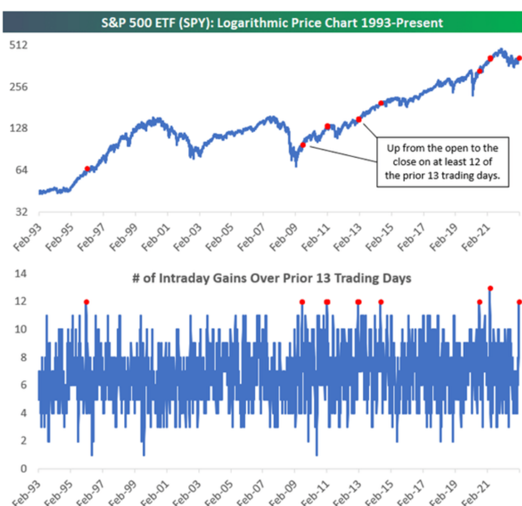
This is where things seem to be get-ting a little dicey. On one hand the Fed is trying to slow down the econ-omy and it appears they are head-ing towards accomplishing this. On the other hand stock prices are holding up exceedingly and unex-pectedly well.

Since the beginning of the year the Wall Street pundits have been exceptionally bearish on the markets, putting them on the wrong side of the current market. Even if it has only been for a four month stretch, it is going to take some exceptional growth to make up for the traction that has been lost during those four months by sitting on the sidelines.

As difficult as it is to fight the Fed, based on fundamentals, the incoming data points to a favourable outlook that points more to a Bull market than a Bear one. It just may be that the Wall Street crowd is spending too much time focusing on what has just happened or the lagging indicators instead of what is going to happen. For example, we recently saw a one-month uptick in the price of used cars. The hawks concluded, without much evidence that this would lead to an end to the disinflationary process and would require more rate increases.

This position was quite surprising to me. Most people understand that nothing moves in a straight line, especially when talking about markets or the economy. Yes. This was a tick in the wrong direction, but let's wait a couple more months to determine a trend before coming to conclusions. Also, this is only one element of the inflation basket. If instead, they focused on the prices paid index for manufacturing and services companies, they would have seen a precipitous drop in manufacturing and services companies. That is a trend that is telling us where consumer prices are headed.

I believe that the recent rise in the stock market's performance is more reflective of the leading indicators so, while the bears on Wall Street might be pushing the "Don't Fight The Fed" mantra, and under most circumstances, so might I, the current economic times are suggesting that "The Trend Is Our Friend".



Bespoke Investment Group has been tracking leading market indicators and they recently made an interesting observation. Over a 13-day period they found that the S&P 500 closed higher, 12 times. This is the first time this has occurred during a bear market in the last 30 years.

As rare as it is, "Fighting The Fed" has proven to be a winning strategy since Q4 of 2022. The S&P 500 has rebounded over 15% since then and is a stone's throw away from the 20% threshold that many investors use as the defining crossover into a Bull Market.

EDITORIAL COMMENT - CONTINUED

What is astonishing is that the Fed has raised rates three times and announced that more rate hikes are coming and are adamant that they will continue to keep the fed funds rate elevated for a while. Investors and the stock markets have responded with a resounding ”who cares”.

I can only conclude that investors believe these hikes have already been priced into the markets and that there is a high probability that the Fed will pull off a coveted soft landing. They are expecting to see inflation tamed while the economy continues to grow.

According to Adam Sarhan, founder of 50 Park Investments, “Investors are rewarded when they align themselves with the underlying trend on Wall Street. Never fight the tape and keep your losses small.”

It doesn’t mean the Bulls will go unchallenged as was evidenced in the recent jobs report that was much higher than anyone had been projecting. This is a concerning factor as a healthy labor market will keep wage growth up and prices may not come down which would prevent the Fed from pausing or reversing their aggressive tightening tactics.

It seems the market optimists are not deterred by this. They will point to the shift in market leadership instead. The sectors leading the recent rebound are consumer discretionary and information technology, which have historically outperformed during the early stages of a bull market.

Long-term optimists are convinced that a recession is unlikely or at the worst very mild and short-term and they see inflation continuing to decline. This is exactly what the Fed is trying to accomplish so, they see the arrow pointing upwards and that right now investors should get behind the mantra of “Don’t Fight the Tape”.

JURRIEN TIMMER - CONTINUED

Every time the Fed has gone that far into the restrictive zone—two to three percentage points above a neutral rate at which the economy is theoretically in balance—we've had a recession. The valuation of the S&P 500, as measured by the price/earnings multiple, declined by 31% last year. The question is, how much is priced in?

What is confusing the picture is that, as the U.S. is possibly going into a recession, China is finally coming out of its Covid lockdown. Three years of pent-up consumer-spending demand is being unleashed. China isn't going to be able to prevent a U.S. recession, but it could prevent an earnings recession because a big chunk of S&P 500 revenue and earnings comes from abroad.

What does that mean for U.S. stocks?

The market is still pricing in too much of a Goldilocks outcome, given that the S&P 500 is trading for 18 times forward earnings. Also, consensus earnings estimates are flat for this year but show 10% growth for 2024. The market is anticipating a quick rebound in earnings. Investors are expecting the Fed to take rates up to 5%-ish but keep them there for only a New York minute, before pivoting to cut rates to less than 3%.

We would need inflation to fall off a cliff for that to happen. The October 2022 low in stocks might well be a bottom, but it is hard for me to see the catalyst for a new bull market. To go from a 5% to 2.75% federal-funds rate in a year would also require a

Non-U.S. stocks are doing better than U.S. shares this year.

Will that outperformance to continue?

Yes. Part of the outperformance so far has been because the dollar is falling in value, and partly, big earnings declines have already occurred in emerging and foreign markets. Relative valuation is compelling, but big performance moments are driven by relative earnings. The relative-earnings picture is improving [for foreign stocks], with China scraping off of a deep bottom while the U.S. is coming off a top. Corporate earnings growth in the U.S. was 50% in 2021. It was down to zero in 2022 and is probably contracting this year, while China and emerging markets are seeing the opposite.

What else does the rest of the world have going for it?

The past eight to 10 years have been about mega-cap stocks. Because the S&P 500 is laden with these big growth companies, that has led to outperformance for the U.S. versus the rest of the world.

When I look at a chart of the top 50 stocks relative to the bottom 450 stocks, I see a couple of waves: the original Nifty 50 stocks of the early 1970s, the market during the dot-com period, and a similar wave from 2014 to 2022. It looks like that wave has ended, partly because of the interest-rate reset by the Fed.

So, what comes next?

If the low-interest-rate era has ended, it may well mean that the secular trend has changed from the mega-cap growth stocks, which dominated from 2014 to 2021, to "everything else"—such as value stocks, small-caps, commodities, and international equities. This also happened during the original Nifty 50 era of the early 1970s, and again during the tech boom of the late 1990s.

There are market cycles of four to five years, but also secular trends or super-cycles spanning decades. We have been due for growth stocks to pass the baton to the rest of the market [after a growth super-cycle].

What does this mean for future returns?

The bull market was driven by low interest rates, lower taxes, companies earning a lot of free cash flow, and returning the excess to shareholders.

Since the financial crisis, initial public offerings and secondary offerings for S&P 500 companies have raised a combined $2.5 trillion, compared with $20 trillion spent on share buybacks, mergers, and acquisitions.

People don't appreciate how much buybacks and financial engineering contributed to the S&P 500's outsize return. If companies are going to buy back fewer shares, that would lower the share of earnings returned to shareholders, which suggests a lower valuation.

That goes back to the narrative of outperformance for non-U.S. stocks. One reason the U.S. has collected such a premium [relative to foreign markets] is because more of its earnings were paid out to investors via buybacks and dividends. [As this trend wanes], we could see a leveling of the playing field for non-U.S. stocks.

JURRIEN TIMMER - CONTINUED

What is the outlook for bonds after last year's losses?

Over the past 150 years, periods of above-average inflation produced a positive correlation between stocks and bonds. That correlation was deeply negative during the past decade or more but has now flipped to zero. Historically, when the 10-year inflation rate is above average, or 3%, this correlation has been positive. We are still at the average inflation rate, based on the 10-year annualized change in the consumer price index, so the jury is out as to whether the correlation will continue to be positive.

What parts of the bond market are attractive?

If you don't think inflation is going to go all the way back to 2%, then the TIPS [Treasury inflation-protected securities] market offers value at these levels. Corporate bonds do, as well. High-yield corporate spreads have remained stable at around 450 basis points [4.5 percentage points above Treasury yields]. This appears to confirm the soft-landing narrative but could also be the result of corporate issuers having "termed out," or swapped short-term for long-term debt when interest rates were low.

What role does deglobalization play in your inflation outlook?

Deglobalization would suggest the run rate for inflation is going to be higher. The U.S. is about 10 to 15 years behind Japan in terms of demographic trends, such as the shrinking of the labor force. For Japan, that shrinkage has been deflationary, but that was during an era when the supply of available labor was rapidly expanding, with Eastern Europe [joining the global economy] during the 1990s and China since the 2000s. That labor arbitrage seems to have mostly played out, which suggests any further slowing in the labor force may be more inflationary than what was experienced in Japan.

Population is peaking in China, Japan, the U.S., and Europe, but it is less likely to be deflationary than in the past. Plus, geopolitical tensions that cause deglobalization would suggest that inflation's run rate will be higher as countries re-shore or bring supply chains closer to home. That requires infrastructure and capital expenses, not to mention labor. It could lead to resource scarcity, which is inflationary. That's the opposite dynamic of the offshoring era that started when China joined the World Trade Organization in the early 2000s.

Also, during Covid, two to three million baby boomers retired. That, coupled with a more stringent immigration policy, means we have a labor shortage. The resultant inflation is what the Fed is trying to fight. The Fed is willing to induce a recession in the near term to preserve price stability.

How will this fight play out?

The risk is that inflation will come down, but not enough for the Fed's liking, or not enough to prevent inflation from accelerating from a higher base in the next economic expansion. That's what happened in the late 1960s and early '70s. Inflation never got below its five-year trend; there was a series of higher lows.

If inflation is higher, how should investors think about diversification?

A 60% equities/40% bond portfolio produced an average annual return of 9% between 1950 and 2022. In the past 10 years, the S&P 500 and [the Bloomberg US Aggregate Bond Index] were all you needed. If you bought international stocks, they added to volatility and took away return. There was no reason to be an active investor. There is every reason to be an active investor for the next five or 10 years. That's where the game is going to be.

What will market cycles look like in coming years?

During the Great Moderation from the late 1990s until more recently, we had a period of low interest rates, low inflation, low volatility. The cycle was smoothed out because of globalization, and inflation was tamed.

The cycle will return toward more of a typical four-year business cycle. The Fed is going to play a bigger role more often than in the past. [The market] will be more volatile than what investors are used to, and that speaks to the need to be more diversified.

What stands out in your charts?

We have had a huge reset—with the S&P 500 P/E going from 30 to 18—that has brought value to all corners of the market. For the millennial or the Gen Z investor just starting a 401(k), it's a tremendous opportunity. For retirees in the withdrawal stage, 2022 was a perfect storm for the 60/40 portfolio, with a bear market and bond-market losses. The good news is that it came after many years of outsize returns.

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Planning For Longevity With Loved Ones—Continued

Discussions are the starting point for any plan, and there's no better way to protect what's important than through sound and thorough planning. Conversations may lay the groundwork but knowing where to start may not be straightforward for everyone.

There are many variables to consider when it comes to this topic, but I would like to offer some guidance on one aspect that seems to be gaining precedence. Aging in place is one of the longevity issues I am seeing more and more of, and one that certainly requires a solid amount of planning.

It usually doesn't take long for a house to become a home, one that over time is filled with memories and becomes our safest space. It should come as no surprise that more than three quarters of adults wish to remain where the heart is, in our homes, to **"age in place".** This refers to the ability to remain in your own home, in a safe, comfortable, and independent manner, regardless of income, ability, or age. There are several practical considerations for aging in place, which I will discuss in further detail. Remember that having discussions around each of the planning considerations can enhance your ability to not only honor the wishes of a loved one but also increase their ability to age in place.

Focusing on safety and accessibility in the home seems like the starting point. There's a variety of items to complete in order to make a loved one's home safer. Evaluating the situation properly may involve enlisting the help of experts, such as occupational therapists or geriatric care managers.

Amendments to the home obviously range in cost and complexity, but some of the relatively easier fixes include adding a shower chair, raised toilet seat, removing throw rugs as tripping hazards, moving nonessential furniture that may pose a risk, adding extra lighting, exchanging doorknobs for lever handles, adding grab bars in the washrooms, and considering devices that shut off appliances automatically to name a few. Then there are also more complex, or costly options. We recommend speaking with an experienced remodeler or contractor who may help you establish what's affordable and how to move forward. Depending on the cost, downsizing, and moving to a home that needs less work to be safe sometimes makes more sense.

Aging in place goes beyond the physical safety of a home, as we consider the necessary tasks for living independently. Managing daily life is key to remaining independent and loved ones may need help with some or all of these activities of daily living at some point. For example, taking the correct medications on time, cooking nutritious food safely and eating enough, bathing and grooming, laundry and cleaning, socializing, and managing finances are some of these activities.

Though the amount of care required varies in intensity, in-home care is a great way to help someone age in place. Enlisting the help of paid caregivers in the home can be a costly and challenging task, but if approached in the right manner to find a good fit, is something that can make an enormous positive impact on one's quality of life. All the while providing peace of mind knowing the aging loved one is in good hands, rendering this solution invaluable.

On a slightly less personal note, I find it interesting that there is an array of technological tools that have come about in this space. Thus, it seems as though the issue is no longer finding available solutions but rather accounting for and planning for the costs involved in implementing them.

Technology is proving to play an increasingly vital role in preserving independence and safety as people age. There are a variety of products and services that may help provide confidence and peace of mind that a loved one will manage on their own. Take for example wearables that measure activity and location, detect falls, and alert emergency services. There are smart pillboxes that flash or remain locked until it's time to take a dose, and sensors that know when or how often the front door or refrigerator is opened. There are home monitoring systems that track eating, sleeping, medication usage, and even vital signs and weight. Not to be forgotten are the lower-tech approaches such as labeling, lists, simple written instructions, weekly pill reminder cases, automatic LED nightlights, ridesharing apps, and delivery services for food, prescriptions, and other necessities.

The home is a reflection of one's identity, values, and accomplishments. Most of us want to remain at home, wherever that may be, for as long as possible. Although many are unable to do so, having the right plan in place can help. Talking to your loved ones to understand their wishes is the first step, and from there working with professionals to establish the necessary action plan should follow.

As always, your trusted team at KPW is here to help, so don't hesitate to reach out.

Lifestyle Financial Planning—What's Your Number? - Continued

I had many complaints, but my big issue was that the software wasn't intuitive. Mostly it didn't make any sense. I knew what it was capable of and I wanted that more than anything, but I'm not kidding when I say it took me years to learn it well. Funny thing is, now I can't imagine my practice without it because it turns out, hidden underneath all that gobbledygook, was a very impressive and highly flexible financial planning tool.

Sometime during the dark ages of my financial planning software experience, I had completed my CLU and CFP designations and had a pretty good understanding of financial planning concepts. Through my studies I had learned that cash flow management, tax planning, investment planning, risk management, and estate planning were the five pillars of every comprehensive plan. As soon as I could get the planning software to submit, I knew we would be on track to getting each client a comprehensive financial plan. I went to work. In this case, work meant finding some clients to be my willing test subjects.

The first few attempts went well enough in the beginning, but the same problem always appeared towards the end of the planning process. The financial plans were just too big, and nobody ever looked at the final output. This, to me, did not represent real value – just busy work and no real incentive for clients to follow the plan. The problem was that I was using what I had learned in my CFP studies, and what I learned was that financial plans were usually about 50 pages long! If someone handed me a 50-page document of mostly graphs, charts, and numbers, I too would lose any enthusiasm for the project. I'd be thinking, 'hey buddy, can't you just tell me the main point, I've got stuff to do!'

I recognized this problem early on because it created a new problem in which gathering info from people became difficult, if not impossible. Suddenly, everything was being put off and my willing test subjects, these poor souls, weren't as motivated. How could anyone blame them? I knew there was a better way, but I didn't know what it was. I tried different approaches, different ways of presenting, different formats but always the same response, which was no response – just that same thousand- yard stare soldiers get after one too many battles.

As time went on, I kept working away at it, trying to figure out how to make this work. I wanted it to work because I knew deep down that it was important. But the presentation was wrong. The process was wrong. In fact, I even felt that focusing on just the five financial planning pillars was wrong in some way. And that's when I concluded that the biggest problem might be that the output was wrong – not because the numbers were off or anything like that. The output was wrong because it wasn't what people wanted. They just didn't care that much about the charts and graphs and tax planning and investment management. Who would? Most people know it's important but it's not exactly riveting material.

I started to ask myself, what do our clients really want? What does anyone really want? Throughout my attempts to learn our software and figure out how to present it, I kept coming back to this idea of lifestyle being the core of every plan. Yes, the five pillars are still important, and they most certainly help achieve a goal. But the goal can't be about the five pillars, meaning it's not about lowering taxes, or choosing good investments, or finding the right insurance, or any of that. The goal needs to be about getting our client's the lifestyle that they want and making sure they keep that lifestyle no matter what happens. The five pillars of financial planning should be used to serve the lifestyle goal.

2022 was a hard year to be an investor. When the average 60/40 balanced portfolio was down 16% for the year, you know things didn't go well. Some people who had been through this type of thing before weren't too worried. This is because these people know that markets are resilient, and they'll bounce back. But there is always a little hesitation or worry and I think that happens when people don't know "their number". While reading everything I could on lifestyle financial planning, I came across the concept of **"the number".** The number tells people that they are going to be ok. The number tells people they need to keep working or the number tells them it's okay to stop now. The number says you can take that annual golf trip you thought was too expensive and it tells you that your kids are going to be ok if something happens to you.

YOUR NUMBER IS THE SUM OF YOUR LIFESTYLE!

I can discover your number by learning your current lifestyle really well. You may not know what you want your ideal lifestyle to be, but I would bet most of you don't want a lifestyle any less than what you have now. People often tell me that they only want financial security and financial independence. Well, I can tell you right now how to do that for free: sell every one of your possessions, cash out everything, and take your money to Tibet. You'll be able to afford a small place in a beautiful little mountain village. You'll be the richest person there and have all the financial security and independence you could ever need. You may have to walk to the river each day to get your water, and there are no malls or uber delivery. You'll also have to take a bus for a couple hours to get groceries, but I promise you will have enough money for the rest of your life. And people say, "yeah but what about my nice car, and watching the Leafs games, and underground plumbing?" People would say this because financial security and financial independence are not the only thing people want.

Lifestyle Financial Planning—What's Your Number? - Continued

They want a lifestyle! They want golf, and cars, and the theater, and restaurants, and trips with the grandkids, and all that stuff. Being able to do those things you want to do is the true definition of financial security and financial independence.

My conversations with clients have shifted away from the technical gobbledygook and more towards a focus on lifestyle. Because once I know your lifestyle really well, I can then measure it through a careful and conservative cash flow analysis. It is from that analysis and the use of prudent financial planning techniques that I will be able to give you a number that shows you a lifestyle you want, no matter what happens. A funny thing happens when you know your number; suddenly stock markets, interest rates, inflation and all that stuff that worries us, stops mattering so much. The only thing that starts to matter is **"how's my number doing?"**

To those of you who, over the previous two or three years let me create a Life Plan for you, I thank you. But more importantly, I still owe you a number. You were given a large report and you were shown your financial health, but you never received your number. If you do not have your number, then I believe you have not yet seen the full value of lifestyle financial planning. And to those of you who have not yet done a Life Plan, I encourage you to reach out to us.

Just tell us you want to know what your number is and leave the rest to us!

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