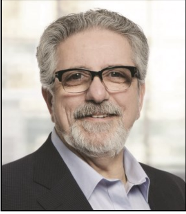
Kleinburg PRIVATE WEALTH

Carte WEALTH MANAGEMENT INC.

KPW LIFE PLAN—IMAGINE YOUR FUTURE

VOL. 12, ISSUE 4 APR 2023

"If you put the federal government in charge of the Sahara Desert, in 5 years there'd be a shortage of sand" **Milton Friedman**



Sergio Simone
EDITORIAL COMMENT

Kristina De Souza, CFP
INTRODUCING THE FIRST HOME SAVINGS ACCOUNT

Ryan Simone, CFP, CLU, CHS
US DEBT CEILING INSIGHT

EDITORIAL COMMENT

Sergio Simone

If I were to ask what the single most important factor in investing, how would you answer?

Some will answer that doing thorough due diligence before investing; some will point to being a contrarian investor while others will stress that success is achieved by being conservative; then there are those that push investment styles like value or growth investing; many investors stress the importance of proper diversification.

These are all very important determinants for successful investing, but for me the most important factor is **"PATIENCE"!**

THE BEST OF BOTH WORLDS: INTRODUCING THE FIRST HOME SAVINGS ACCOUNT

Kristina De Souza, CFP

I am a firm believer that home is where the heart is, a place that everyone deserves to own if they wish. Unfortunately, it is becoming increasingly challenging for many Canadians, especially young people, to find an affordable place to live. To counter this widespread issue, a key focus of last year's budget was to make housing more affordable for young people in communities nationwide. I would like to take a deep dive into the measure that we feel will be one of the most valuable. By now I'm sure most people have heard the buzzing, ads on the radio, TV, social media, a very exciting innovation indeed, as we welcome the First Home Savings Account.

US DEBT CEILING INSIGHT

Ryan Simone,
CFP, CLU, CHS

I expect the upcoming issue of the U.S. debt ceiling will dominate the business news over the next few months.

For those requiring a brief tutorial to get you up to date, the "debt ceiling" refers to a point where the government spends more money than they take in, requiring them to borrow money to meet its financial obligations. US Law requires that Congress must first vote to increase the debt ceiling before the government can issue more debt to cover the spending it has already agreed to.

Historically, when faced with this issue, the political standoffs have always been resolved with a bi-partisan vote to increase the debt ceiling. According to the US Treasury, this has occurred 78 times in the last 72 years under both administrations so it is not an uncommon occurrence.

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VOL. 12, ISSUE 4 APR 2023

GETTING A HEAD START ON HOME OWNERSHIP WITH THE FHSA

Introducing the Tax-Free First Home Savings Account (FHSA)

The FHSA offers Canadian residents at least 18 years of age who are prospective first-time home buyers the ability to contribute up to $40,000 tax-free.* Contributions to an FHSA are tax-deductible like an RRSP, and like a TFSA, income and gains inside an FHSA, as well as withdrawals toward the purchase of a first home, are tax-free.

THE TAX ADVANTAGES OF THE FHSA

TAKE ME TO 2023 CIBC TAX TOOLKIT

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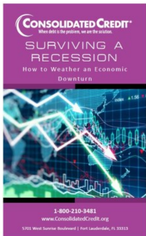
BOOK OF THE MONTH

SURVIVING A RECESSION

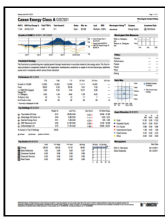
- by Consolidated Credit



Recessions are a fact of life. Our economy can't keep growing forever, so it's only natural for there to be downturns. Every boom has an eventual bust. That's what a recession is. It's a period where economic activity slows down significantly, affecting both businesses and consumers. When we have two or more consecutive quarters of economic decline, it's a recession. According to U.S. economic history, this happens about every four years, although it's not always exact. Still, whether the next recession is on time or not, it will eventually come, so it's important that you prepare your finances for it.

FUND OF THE MONTH

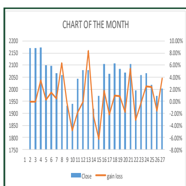
RENNAISANCE GLOBAL INFRASTRUCTURE CLASS A



Renaissance Global Infrastructure Fund seeks long-term capital growth and income by investing primarily in securities of companies throughout the world that are involved in, or that indirectly benefit from, the development, maintenance, servicing, and management of infrastructure.

CHART OF THE MONTH

WHAT HAPPENS AFTER FEDS "PAUSE" RATE HIKES



As markets continue to hope for a Fed rate pause, we ask the question: "historically, how have US equity and fixed income returns behaved after the Fed has officially paused rate increases?"

Tightening cycles are like fingerprints, no two are alike, so the best we can do is make inferences on the potential path for US equity and fixed income markets.

BLOG OF THE MONTH

The Real Economy Blog

CANADA JOBS REPORT TOPS FORECASTS, SHOWING RESILIENCE AMID RECESSION FEARS

Canada's March jobs report came out hotter than expected, adding more pressure on the Bank of Canada's fight against inflation. While we don't see another rate hike in 2023 for now, there were not a lot of reasons from Thursday's Statistics Canada report that suggest we will see rate cuts either. The market has been pricing in multiple rate cuts in 2023.

The Canadian economy added 34,700 net jobs in March—12,900 jobs more than in February—continuing to defy market forecasts for multiple months in a row. Unemployment stayed at the all-time low of 5% for the fourth consecutive month as the labor force participation rate dropped 0.1 percentage point to 65.6%.

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PRIVATE WEALTH

INFORMATION AND SOLUTIONS FOR HIGH NET WORTH INVESTORS

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smartasset™

7 CRITICAL TIPS FOR ESTATE PLANNING

Beyond retirement, estate planning is one of the most important (and complicated) financial decisions a person can make, made even more difficult by the emotions driven by contemplating one's own mortality. A Google search for "estate planning" results in more than five billion entries, while "estate planning services" populates another three billion. As the search results indicate, knowing where to start is often the toughest task of all. Before sitting down on your own to determine how best to distribute your assets to your heirs, we recommend speaking with a fiduciary financial advisor. These financial professionals can help you assess what you have and how best to transfer your assets in the most tax efficient way.

PLANNING YOUR ESTATE

Today we're going to talk about something that roughly 50% of Canadians don't want to talk about. It's morbid and it forces us to think about a world that we no longer live in. That's right. We're talking about estate planning. Even though it's tough, it does give you the option of providing for your loved ones how you would want to. As we'll get into in this episode, if you don't have a plan, your assets may not be used in the way you intended or could end up in the wrong hands completely.

FORTUNE

SHOULD YOU TAKE A 5% RETURN BY PARKING YOUR PORTFOLIO IN CASH AND WAITING OUT 2023?

When near-term returns for the S&P 500 look bleak and interest rates push yields from savings accounts up to an eye-popping 5%, some investors are asking themselves if they should ditch the erratic equities market altogether for its reliable, if not boring, cousin: cash. Cash is a "compelling alternative to the S&P 500," Bank of America analysts wrote in a research note to clients, predicting disappointing near-term returns for the S&P 500.

CANADA LIFE MY PAR GIFT—DIGITAL RESOURCE FOR CHARTIES

My Par Gift is an innovative, first-of-its-kind, single premium insurance product designed for charitable giving using life insurance. You are the owner and beneficiary of the policy. The donor makes a donation for the single premium which qualifies as a charitable donation. My Par Gift can offer you the flexibility of a payout when the insured person dies or access to cash while they're alive. It is important to note that any withdrawals or unpaid loans will decrease the size of your payout.

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CORPORATE CULTURE

BUSINESS OWNERS BRACE FOR SECOND STAGE OF CPP EXPANSION

Business-owner clients struggling to absorb the cost of rising Canada Pension Plan (CPP) payroll contributions over the past five years will get little relief when the second stage of CPP expansion begins in 2024.

Most business owners are unaware the change is coming, said Armando Minicucci, tax partner with Grant Thornton LLP in Toronto: “I had two clients reach out to me [in March] about how significant their CPP contributions, or their payroll remittances, are. I had to say to them, ‘Wait another year. You’re going to be contributing [on] the second earnings ceiling.’”

HOW TO SAVE CORPORATE TAXES IN CANADA?

There are so many legitimate ways that you can use to save your company’s taxes. Canadian corporations have two ways to minimize the amount of income tax they have to pay; do prescribed things that earn them tax credits or take advantage of income tax deductions.

This guide offers some of the top strategies to minimize your tax burden and maximize your business income.

SHOULD YOU BORROW TO HELP GROW YOUR BUSINESS?

While debt is often seen as a negative, leveraging debt can help you finance growth, seize opportunities and avoid selling assets to manage through cash-crunched times. With the rise of interest rates, see how to determine if borrowing now makes sense for your business.

There’s been a lot of movement with interest rates over the past year, and it’s tough to predict where they will go next. If you’re wondering whether borrowing for your business makes sense now, you’re not alone.

Here are six questions to ask yourself to determine if it’s a good time to borrow.

20 COMPANIES THAT BOAST THE BEST PENSION PLANS IN CANADA

It can make a huge difference to your professional life if you work for a company that takes care of its employees. But you also need to think about what comes after retirement. Ideally, you want to work for a company that won’t only take care of you while you’re working for them, but will help you have a comfortable life once you’ve stopped. When you consider any new employer, you shouldn’t just look at the pay and perks they offer now, but also at their retirement benefits.

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FUND MANAGER COMMENTARY

Patrick Blais, Senior Portfolio Manager

Manulife Investment Management

WE LIKED THE VOLATILITY: WHY INFLATION MEANS OPPORTUNITIES

Inflation is often painted in broad negative strokes, a brooding menace infecting all areas of the economy. For policy makers and consumers, there is no doubt it is a source of deep anxiety. However, for a process-driven, bottom-up senior portfolio managers, like Manulife Investment Management's Patrick Blais, it also represents clear investment opportunities.

The head of the Fundamental Equity Team, which manages the Manulife Fundamental Balanced Class and the Manulife Canadian Equity Class, believes there are companies in which inflation risk has not been reflected in its valuation.

Noah Blackstein, Vice President & Senior Portfolio Manager

Dynamic Funds

FUND UPDATES

The start of 2023 reminds me of the early months post the 2002 and 2009 bear markets. In both periods, the consensus short companies with terribly poor fundamentals, bounced the hardest off the lows. Early in the first quarter of 2023 we have seen similar action as the companies with the worst fundamentals bounced, along with a few turnaround stories.

Samuel Lau, Portfolio Manager

DoubleLine Capital

PREPARING FOR A RECESSION

One question that's been on the top of mind for investors is if we are in or if we are headed for an economic recession. And to help answer this, there are a few tried and true indicators that we look at at DoubleLine that offer some insight on if the economy will enter a period of expansion or contraction in the upcoming months. And that's typically decided in, the actual recession is actually decided in hindsight by an agency called the National Bureau of Economic Research

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Brian Belski, Chief Investment Strategist

BMO Global Asset Management

IT'S A STOCK PICKER'S MARKET OFFERING SELECTIVE OPPORTUNITIES

So far 2023 has resembled something of a Charles Dickens novel. It's been the best of times one moment and the worst of times another. To modify the title of the famed writer's masterpiece, the first months of the year have been a Tale of Two Markets.

January was jubilant. Stocks rallied on the belief that central banks had pulled off the improbable. Inflation was falling back towards the target rate without a painful economic reset in our view. Yet except for some spillover exuberance in February, volatility has seized the day once more.

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LINKS

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A KEY INFLATION GUAGE TRACKED BY THE FED SLOWED IN FEBRUARY	GLOBAL OIL PRICES SURGE AFTER OPEC ANNOUNCE PRODUCTION CUT	OECD INFLATION DECLINES TO 8.8% IN FEBRUARY 2023, AS ENERGY PRICES CONTINUE TO EASE
JOB OPENINGS FALL TO 21-MONTH LOW OF 9.9 MILLION. LABOR COOLS BUT IT'S STILL HOT	A LABOR MARKET COOLDOWN: US ECONOMY ADDED JUST 236,000 JOBS IN MARCH	WANT YOUR FINANCIAL FUTURE TO LOOK BRIGHTER? HERE'S WHERE TO START
CRA RAISES LATE PAYMENT PENALTIES	BOND MARKET IS OVERPLAYING THE RISK OF A DEEP RECESSION	BANK OF CANADA HOLDS KEY INTEREST RATE AT 4.5%

Canada

FIRST HOME SAVINGS ACCOUNT (FHSA)

A first home savings account (FHSA) is a registered plan allowing you, as a prospective first-time home buyer, to save for your first home tax-free (up to certain limits). You will be able to open an FHSA starting April 1, 2023.

MACKENZIE Investments

HAS THE FED LOST THE PLOT?

The Federal Reserve appears less convinced it can engineer a soft landing for the U.S. economy, leading some to wonder if the central bank is clear on its strategy in these volatile times.

Dustin Reid, vice-president, investment management with the fixed income team at Mackenzie Investments, said the Fed reacted slowly to initial signs of trouble in the economy, misread the essential nature of inflation, and sent mixed signals to markets in recent months.

VIDEO AND PODCAST LINKS

CANADA'S NATIONAL OFFICE VACANCY RATE HIT AN ALL-TIME HIGH IN Q1: CBRE	THEMATIC OPPORTUNITIES FAVOUR GROWTH STOCKS	MARCH CPI DATA SHOWS INFLATION SLOWING, WHAT TO EXPECT FROM THE FED IN MAY

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

Warren Buffett explains it like this: ***"You need a temperament that neither derives great pleasure from being with the crowd or against the crowd."*** In other words, you need to take emotion out of your investment decisions and avoid the herd mentality. We have to avoid letting either fear or greed dictate how we invest our hard earned money. For example, if you had converted your entire investment portfolio to cash during the depths of the 2008 financial crisis and parked your money under your mattress for a year, you would have missed out on nearly 70% of gains. Or if you took all your investments and chased the dot-com bubble in 1999, it would have taken you 20 years to get back to even.

The alternative in either case could have been to disregard the crowd mentality and keep your money invested in mutual funds that held high-quality stocks and bonds. You would have done well over time, despite the crashes and market panics along the way.

Unfortunately, patience is not an inherent trait, it is one formed from a strong basis in knowledge. When you know and understand that crashes are a normal part of an economic cycle, you are more apt to avoid panic selling. Likewise, if you understand fundamentals and some basics of stock analysis, you can avoid over-hyped sectors that have become popularized for illogical reasons.

I do not believe there is ever any reason to immediately jump into any so-called investment opportunity, especially when they are hyped by today's financial media. Information from these sources does not make you investment savvy, in fact it can do quite the opposite, it can make you part of the herd. Instead, be patient!

Another piece of wisdom from Warren Buffett: ***"The stock market is a device to transfer money from the impatient to the patient."*** Patience is not something we are born with, yet it is a very valuable and underused investment skill that we need to develop and work on beginning as early as possible. We tend to focus more on instant gratification, which is unfortunate because this is the time when thinking long term will generate the most successful portfolio returns. Fortu-nately, patience can be learned and learning it can improve the probabilities of an investor achieving their financial goals.

Investor Patience should not be bundled into the same category as Everyday Life Patience. They are not the same animal. Just because you can patiently stand in a line waiting to get into a concert, it does not mean you are a patient investor. The reason for this is that you do not feel threatened standing in a line waiting to get into a concert, but you may feel threatened watching your hard earned investment dollars vanishing during a struggling market. These threatening situations may trigger the "fight or flight" response. You believe your only choices are to attack or run away. You main focus become whatever will get rid of the threat as soon as possible. Being patient requires you to overcome these natural responses.

When the markets are experiencing extreme volatility and you are overwhelmed with all the negative financial news pushed out by the media, like we have experienced over the last year, your brain flashes **"THREAT"** and that fight-or-flight response immediately kicks in and emotion takes over logic. If your brain could talk, it would be screaming, **"DO SOMETHING! YOUR PORTFOLIO IS BEING HARMED!"** What your brain is ignoring is that one of the biggest investment mistakes you can make is selling during a market downturn.

Benjamin Graham is widely recognized as the **"father of value investing"**. As a value investor he understood patience like most investors never will. One of his more famous quotes is: "In the end, how your investments behave is much less important than how you behave."

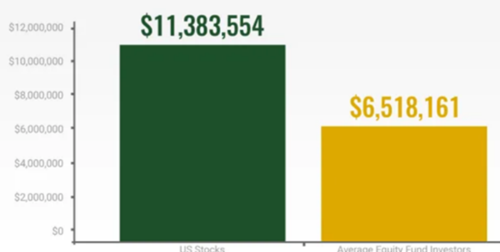
Graham believed that Patience and Investing were natural partners. He knew that investing was a long-term prospect whose benefits often took many years to realize. To do this successfully we have to be patient. Patience is a behavior that is usually derived over a longer period of time. This often involves having to endure some short-term adversities to achieve those future rewards.

I understand that taking an action, like converting your portfolio to cash during a correcting market may feel like you're being proactive, and in fact may give you a sense of pleasure as you watch markets continue to fall after you've sold. The problem is that this emotion of pleasure can easily and quickly turn to regret if you miss buying back into the market until after a number of extraordinarily large gain days. Unless you are extremely lucky, this is a high-probability outcome.

While researching for this article, I ran across a 2020 report by market research firm DALBAR, Inc., titled "2020 Quantitative Analysis of Investor Behavior (QAIB)". The paper compared S&P 500 returns with average mutual fund investors' returns over a 25 year period ending in 2019. During this 25-year period the index had an average annualized return of about 10%, meanwhile the average equity fund investor was only able to average an annualized return of 7.8%.

EDITORIAL COMMENT - CONTINUED

The question asked by DALBAR was “why are investors failing to earn the average benchmark return? Some investor will conclude that this occurs because it is better to by the index than the mutual fund. DALBAR’s conclusions were somewhat different.



DALBAR attributed the shortfall to psychological factors from investors that led to poor market timing. Their research showed that equity fund investors hold their mutual funds for an average of 4.5 years. They also concluded that switching in and out of investments resulted in investors losing significant returns over time. The graph shows that investor behavior in a $1 million investment on December 31, 1994 to December 31, 2019 may have cost them almost $5 million of value.

Investing Patience may not be your strongest trait, but there are tools that may help you overcome your impatience.

1. **Work with your advisor to establish long-term financial goals and write them down!** When markets become volatile, review these goals and if the goals have not changed, you can use this to help you separate the journey from the destination. No journey is a straight line. If emotion is beginning to dominate your thinking, meet with your trusted financial professional who will likely help keep you on track.

2. **Market ups and downs are normal even when they are extreme!** Just like the concert lines, market volatility may be uncomfortable, but it is a normal part of life.

3. **Determine if current market actions are driven by fear or fundamentals!** If markets are being driven by fear, sit back and wait for it to pass as it surely will. If fundamentally driven, understand that markets often price the future far worse than the reality. Either way, be patient and have faith in your investment strategy to help you keep the emotion out of the decision making process.

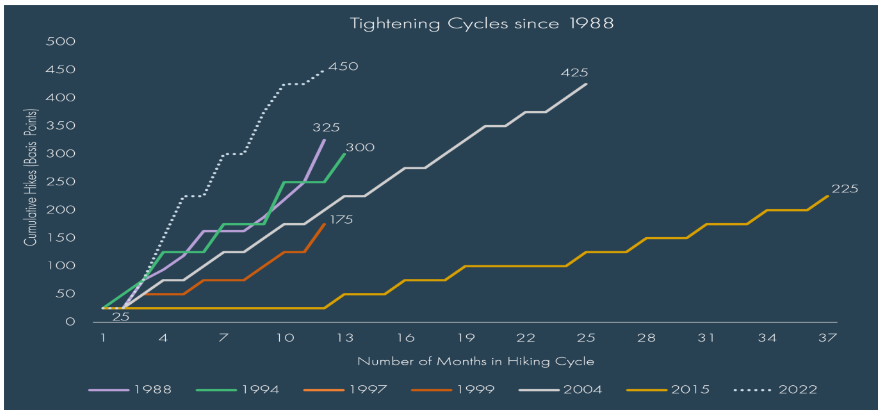
4. **Corrections and bear markets always end!** Historically, markets go up far more often than they go down and by greater margins. Being invested for the long-term is one of the easiest ways to profit from economic progress, innovation and compound growth.

I am aware that Investing Patience is not easy but hopefully with time and experience on our side, we can learn to take comfort in the exceptional historical performance of equities. If you are a long-term investor, then patience is the most prudent and wisest approach. So, the next time the market tanks and the fight or flight options are dominating your behavior, take a step back and look at the third option. Patience! This is as much an active choice as fight or flight and is most likely to produce more positive results over time.

CHART OF THE MONTH - CONTINUED

Over the last 35 years there have been seven interest rate hiking cycles. On average the Fed has raised rates by 2.75% during the length of a hiking cycle, and the average length of a hiking cycle has been approximately 16 months.

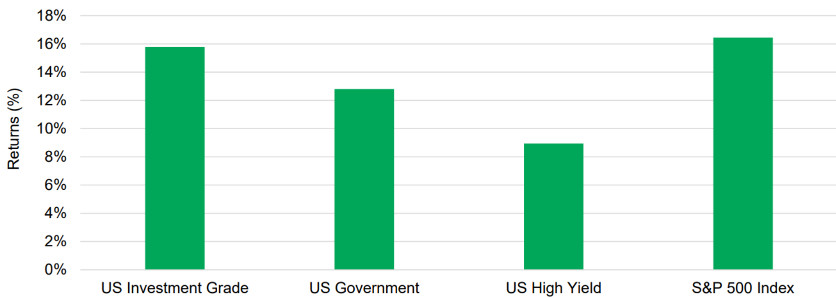
To illustrate how different the current tightening cycle has been with the average since 1988, the current Fed hiking cycle has produced historically high rate increases relative to the time it took to implement them. The Fed funds rate has risen 4.5% over a 12 month period.



Source: Federal Reserve

The following chart illustrates returns for various types of fixed income types and the S&P 500, one year out from the last Fed rate increase.

1 year forward returns after the US Federal Reserve pauses



US Government - Bloomberg US Treasury Index, US Investment Grade - Bloomberg US Corporate Bond Index, US High Yield- Bloomberg US Corporate High Yield Bond Index
Source: Bloomberg, Manulife Investment Management, Capital Markets Strategy. As of December 31, 2022

Manulife Investment Management

Capital Markets Strategy

US Investment Grade bonds earned slightly less than the S&P 500 Index but did so with much less volatility. The benefit of higher yields created during the rate hikes has been higher yields, and when the rates pause and begin to decline, this sector can provide equity-like returns but with a less volatile track.

So, while markets abhor uncertainty and react accordingly, history has shown that markets love it when the Fed terminates a hiking or tightening policy.

At this point I would stress that individual investors should always make investment decisions based on their risk profile, investment objectives and liquidity needs.

NOAH BLACKSTEIN - CONTINUED

As March progressed, we began to see significantly and fundamentally stronger growth stock participation in the market rally. This timing is lining up with what I've seen in previous cycles as the bear market comes to an end and a new bull begins.

As I have argued for years, my biggest concern is a policy error by the U.S. Federal Reserve (Fed). Every major sustained stock market sell-off of my 30 year career, started with a Fed policy mistake. This time has been no different. From underwriting an unnecessary trillion dollar plus fiscal stimulus in 2021, to upending markets with a rapid shift from transitory inflation to a Paul Volcker impersonation ending up in bankrupting several large regionals banks. This maybe the worst Fed I have ever seen in my career with the European Central Bank (ECB) a first runner up.

While none of the funds I manage own any U.S. or Global banks, risk now shifts from inflation to the tightening of credit conditions. We still don't know the secondary effects of these regional and European bank collapses on the economy and credit markets. We have known since the pandemic that there is a problem in commercial real estate, with office real estate at the epicentre. These issues will only be exacerbated by the new interest rate levels.

Last year we heard that the interest rate impact on growth stocks was the reason for their declines. The logic was that when raising the interest rate, one decreases the present value of future earnings. This interest rate argument has never held up historically. But, we argued, if this was your position, we'd point out that we've witnessed hyper-focused management teams reiterate a commitment to dramatically increasing profits via margin expansion in 2023. So, while you're discounting earnings with a higher discount rate, you're now pulling forward future earnings, in what will likely be dramatic fashion. What we thought some companies would earn in 2026, is now occurring in 2023.

In 2022 we heard that a low P/E meant something was safe and defensive. This month we saw low price/earnings, low price/book, value stocks like banks, go down 100% overnight. The idea that low P/E stocks are safe, is nonsense. Future fundamentals are what matter most.

At year end we wrote that the continued move to cloud with specific investments in artificial intelligence, automation and machine learning, is now firmly in the driver's seat of spend. ChatGPT (a chatbot launched by OpenAI in November 2022), was the shot across the bow and there are profound implications for semiconductors, databases, and cloud platforms as AI-driven (Artificial Intelligence) demand in cloud applications will see accelerated spending. We are now at a moment as profound as the 2006 announcement of the Amazon Elastic Compute Cloud. The speed of AI and subsequent arms race it has started, is unprecedented in my career. Since its release November 30th, 2022, OpenAI's large language model (LLM) chatbot, ChatGPT, amassed over 100 million active users in January alone, making it the fastest app in history to reach this level of engagement in history.

While cloud investments have been pulled and pushed through the pandemic we see a very long runway ahead for the cloud, driven by continued digital transformation with AI-based business transformation including automation and analytics being layered on top. All of this is being built on a new modern technology architecture in which we have significant investments. While year to date the first move back into technology by investors has been to pile into mega cap technology names, the real opportunity is in the next generation of companies. The new leaders stock prices hit bottom a year ago but have yet to meaningfully participate in the recent rally. Many of our favorites are now cheaper than the mega cap stocks with, in our opinion, dramatically larger upside potential.

While the market moves in fits and starts based on macro positioning, this area of secular growth that has been pressured by the most aggressive rate hikes in 40 years, exits the bear market with better prospects and potential than ever before.

The Dynamic Alpha Performance Funds are approximately 75% long and 45% short with idiosyncratic shorts at approximately 35% of total shorts.

The Global Growth Opportunities Fund gains have come from several European based companies in the consumer space as well as some strong results and M&A in the health care sector. Several smaller and profitable technology names we own have also posted exceptionally strong results and for the first time in a over year have been greeted with positive stock price reactions to good fundamental news.

Kleinburg PRIVATE WEALTH

Carte WEALTH MANAGEMENT INC.

The Best of Both Worlds—Continued

This account allows first-time home buyers to contribute up to $40,000, where contributions would be tax-deductible (like an RRSP) and withdrawals to purchase a first home would be non-taxable (like a TFSA). This is not to be confused with the Home Buyer's Plan, and although there certainly are similarities, this new program has some notable improvements. I like to think of these accounts very much as the best of both worlds: by combining the major benefit of the RRSP and the major benefit of the TFSA, which together result in a tax-free in, tax-free out scenario.

In order to be eligible to open an FHSA, one must be a resident of Canada, who is between the ages of 18 and 71. You must be a first-time home buyer, meaning you, or your spouse or common-law partner did not own a qualifying home that you lived in as your principal residence in the calendar year before the account is opened or in the previous four years. Again, there is a lifetime contribution limit of $40,000, and an annual contribution limit of $8,000 in any year, beginning this year.

The program allows you to carry forward up to $8,000 of your unused annual contribution amount, subject to the lifetime contribution limit. For example, if you open an FHSA in 2023 and contribute $3,000, you can contribute up to $13,000 in 2024 ($8,000 for 2024 + $5,000 carryforward from 2023). It's important to note that carryforward amounts do not start accumulating until after the FHSA is opened. You are permitted to hold more than one FHSA, but the total contribution amount to all FHSAs cannot exceed the annual and lifetime contribution limits.

Unlike RRSPs, contributions made within the first 60 days of a calendar year cannot be attributed to the previous tax year. FHSA contributions can be claimed as a deduction against all sources of taxable income, which reduces your taxable income for the year and, ultimately, your taxes payable, based on your marginal tax rate. It's important to note that contributions to your FHSA do not have to be claimed in the year they are made, but instead, you are able to carry forward undeducted contributions indefinitely.

Just like with other registered accounts, there is a penalty tax that applies to overcontributions, more specifically, a 1% tax applies to the highest amount of the excess that existed in that month. One of the greatest benefits lies herein: income as well as capital gains (and capital losses) earned in an FHSA are not included in your annual income (or deductible) for tax purposes. This means income and capital gains can continue to grow and compound in the FHSA on a tax-free basis. Qualifying investments are similar to those held by RRSPs and TFSAs and include mutual funds, exchange-traded funds (ETFs), publicly traded securities, government and corporate bonds and GICs. Likewise, the same prohibited investment rules and non-qualified investment rules applicable to other registered accounts will apply to the FHSA.

As I mentioned, qualifying withdrawals to buy a home are tax-free, when certain conditions are met. The first is that you must be a first time home buyer and be a resident in Canada from the time of the withdrawal to the acquisition of the qualifying home. There is however an exception to allow individuals to make qualifying withdrawals within 30 days of moving into a qualifying home. Second, you must have a written agreement to buy or build a qualifying home before October 1 of the year following the year of withdrawal and intend to occupy the home as a principal residence within one year after buying or building it. Lastly, the qualifying home must be in Canada.

Bear in mind that transfers do not reduce or limit your available RRSP contribution room. Once transferred, the funds are subject to the rules of the applicable accounts, including that the funds will be taxable when you withdraw them from the account. It's also very important to note that withdrawals and transfers do not replenish FHSA contribution limits and any non-qualifying withdrawals will be subject to withholding tax and included in your amount of income for the year of the withdrawal.

It would be worth discussing the FHSA as it relates to the Home Buyers' Plan (HBP). FHSA withdrawals and withdrawals under the HBP can be made for the same qualifying home purchase; by maximizing both programs, you could put $75,000 (plus any investment growth in the FHSA) toward a down payment. HBP withdrawals are borrowed from your RRSP (interest-free) and must be paid back within 15 years, whereas qualifying FHSA withdrawals are tax-free and do not need to be repaid. If you do not buy a home within the 15-year FHSA limit, the funds can be transferred to your RRSP tax-free before the end of the 15th year, where they can later be withdrawn under the HBP. Because a transfer of funds from an FHSA to an RRSP will not reduce your available RRSP contribution room, you can effectively create more RRSP room by starting to contribute to your FHSA.

Only the FHSA holder can claim a deduction for contributions made to their own FHSA. While spousal contributions (and deduction claims) are not allowed, there is an opportunity for spouses and common-law partners to work together to maximize the FHSA. The government made an exception to the "attribution" rules, which means you can lend a spouse or partner money for an FHSA without having to take on the tax burden of any income earned in the account (as would normally happen

The Best of Both Worlds—Continued

You may also designate your spouse as a successor account holder, which allows the surviving spouse to become the new holder immediately on death, so long as they meet the eligibility criteria to open an FHSA. Inheriting an FHSA in this way would not impact their contribution limits and would assume the surviving spouse's closure deadlines. If the surviving spouse is not eligible to open an FHSA, amounts can be transferred on a tax-deferred basis to their RRSP or RRIF or withdrawn on a taxable basis. If the beneficiary is anyone other than a spouse, the funds will need to be withdrawn immediately following death and paid to the beneficiary. Amounts paid will be included in the beneficiary's income and subject to withholding tax.

If funds in the FHSA are not used, the account must be closed after 15 years or by December 31 of the year you turn age 71. Alternatively, the account must be closed by December 31 of the year following the year of a qualifying withdrawal. Again, any unused funds in the FHSA can be transferred to an RRSP or RRIF on a tax-free basis before the FHSA closure or withdrawn (taxable). If a withdrawal was made to purchase a qualifying home, unused funds can be transferred to an RRSP or RRIF on a tax-free basis until December 31 of the year following the year of the qualifying withdrawal.

In this time of high inflation, rising interest rates, vulnerable portfolios, and housing inventory issues, buying a home is no easy feat. Thus, we are grateful for the reprieve that this program stands to offer those wishing to enter the real estate market and arguably make one of the largest and most important investments of their life. There is a lot of information to digest as this new and valuable strategy hits the marketplace. Our team is well prepared to help break this all down into usable information and implement this plan where warranted. Please do not hesitate to reach out to us if this is something you wish to discuss in greater detail.

US Debt Ceiling Insights—Continued

The last time the US came close to default was in 2011 under the Obama administration, when Congressional Republicans refused to raise the debt ceiling without spending cuts. The two sides could not seem to reach a compromise which resulted in a US first. Standard & Poor downgraded the nations credit rating from AAA to AA+. Moody's also took the initiative to downgrade US debt to negative while still maintaining its AAA rating.

Markets all around the globe, caught up in the uncertainty, began to swing violently beginning in July of 2011. When the dust cleared in August, the S&P 500 had lost a staggering 16%. Fortunately, two days before the default date, a compromise was reached and the debt ceiling was raised. Default on the debt was avoided.

Should the 2023 debt ceiling debate play out similarly to that of 2011, it wouldn't be rocket science to predict that we will see greater volatility in the stock and bond markets. While I doubt that we will see a default, what has me concerned is a small contingent of the Republican party that are determined to withhold their vote if certain concessions are not met while some members of the Democrat party feel as strongly about relinquishing certain budget gains they have made over the last couple of years. This standoff can be catastrophic for the global economy.

While S&P Global Ratings issued a bulletin in January 2023 predicting that Congress will address this issue in time to prevent a default, Moody's Chief Economist, Mark Zandi was less optimistic, warning that "heightened disfunction in Congress" was making the odds on the default issue "uncomfortably high".

Since the US has never defaulted on its debt, no one can say, with any level of certainty, exactly what would happen. I can only surmise that it would lead to downgrading of US debt which would lead to increased borrowing costs and would likely end with a stock and bond market sell off. Bond investors are already beginning to trim holdings in US debt as they brace for a possible government default, even while publicly stating that they believe the scenario is unlikely. Although they consider a default to be a low probability event, the potential outcome of it can have an extremely high impact. It would send shockwaves through the global markets and raise borrowing costs for both the US government and businesses.

If I were to play devil's advocate and conclude that a default was inevitable, I can only surmise of the consequences. Although such an event is unprecedented, there have been other countries that have defaulted on their sovereign debt during situations where the government could not feasibly continue to service their debt.

The US failure would be under much different circumstances. Failure to raise the debt would be a voluntary one, not one forced on them. If they choose, they can easily vote to meet their obligations. Another key difference to other national defaults is that Treasury securities are considered to be the world's "safe" asset and the dollar is still considered to be the world's primary reserve currency. For these reasons alone, there is no historical experience that would help anyone predict the likely consequence of a failure by Congress to raise the debt ceiling.

One result is almost certain. Investors will demand a premium on government debt similar to what is paid on AAA corporate bonds. Since Treasury yields are looked at as a benchmark rate for other securities, any prolonged stand-off would most certainly make the general economic outlook uncertain which would almost certainly lead to a sharp rise in interest rates beyond what inflation has called for. Rising rates and rising risk premiums would in turn cause stocks to retreat.

A debt default could also lead to some severe international repercussions. It could steer investors away from US Treasury securities and cause a major decline in the US dollar.

If the US Treasury chooses to prioritize debt payments, as they should, other federal spending would be temporarily reduced. The impact would be mostly felt by Social Security, Medicare, nominal Federal purchases and grants to state and local governments.

One of my main concerns is that the two political parties create so much media noise that the debt-ceiling fight alone could increase the effects of the economic slowdown and move up the timing of the next recession.

I can only hope that saner minds prevail and both sides put politics aside and focus on the bigger picture of what a default can cause and do everything in their power to avoid this scenario.

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