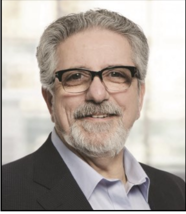
Kleinburg PRIVATE WEALTH | Carte WEALTH MANAGEMENT INC.

KPW LIFE PLAN—IMAGINE YOUR FUTURE

VOL. 11, ISSUE 1 JANUARY 2022

***"History shows you don't know what the future brings."* - G. Richard Wagoner**



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EDITORIAL COMMENT

Sergio Simone

Another year under our belt and what a tumultuous one it was. Despite a year ravaged by successive waves of coronavirus related stresses, closures, inflation, supply chain issues, and market volatility, our portfolios managed to perform admirably.

The stock markets took the negative impact of the pandemic in stride and continued to rebound from the March 2020 correction. As many of you are aware, this rebound came with a constant state of hyper-volatility.

REVISITING THE DREADED "F" WORD

Kristina De Souza, CFP

A new year is upon us, yet there remains a recurring theme in the public eye with regards to the financial services industry. Fees can have a negative connotation thanks to some unscrupulous advisors coupled with the media constantly pushing the idea that fees are unwarranted and unethical. We at KPW Financial do not shy away from this topic, in fact, we embrace it with open arms.

WEALTH BETWEEN GENERATIONS

Cascading Life Insurance

Roberta Di Petta

Here we are 2022! A new and exciting start to the year for many of us is ahead. I would like to introduce myself; my name is Roberta Di Petta. I have had the pleasure of knowing the Kleinburg Private Wealth team for over a decade, and now I have the pleasure of being part of this amazing team. As a wife, mother of two (now adult children + a fur baby), entrepreneur and homeowner, I am very aware of the challenges of multitasking day to day professional and personal life.

RISK & INFLATION IN THREE CHARTS

Ryan Simone, CFP, CLU, CHS

Recently, I attended a presentation (virtual of course), and there were several slides I found interesting. Instead of keeping all this wonderful info to myself, I thought it would be a great idea to share these charts with you.

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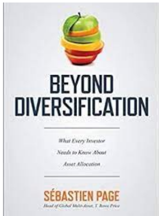
BOOK OF THE MONTH

BEYOND DIVERSIFICATION

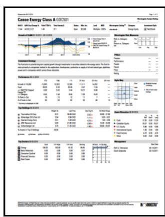
- by Sebastien Page



Asset allocation is the key to investing performance. Unfortunately, no single approach works perfectly—developing the right balance requires a clear-eyed look at the many models available to you, various investing methodologies, and your level of risk tolerance. Written by a leading allocation expert from T. Rowe Price, Beyond Diversification provides the knowledge, insights, and approaches you need to make the best allocation decisions for your goals.

FUND OF THE MONTH

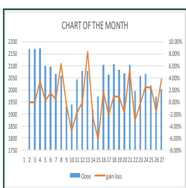
RENAISSANCE GLOBAL HEALTH CARE FUND



The fund offers concentrated exposure to global equities focusing on innovation to identify companies that exhibit exceptional product development and corporate leadership. It is suitable for investors looking to complement an existing global equity core portfolio and participate in the growth potential of global equities. The investment approach is a bottom-up earnings growth momentum investment style, looking at a company's revenue, earnings, profitability, earnings quality and growth potential.

CHART OF THE MONTH

A TRANSITORY 2022 OUTLOOK - Munro Partners



As it's difficult to predict the future, most market outlooks usually will be wrong.

Following a year which included a big reopening of trade (growth to value and cyclical stocks), inflationary concerns, labor market constraints, supply chain bottlenecks, political division in the U.S. and the delta and omicron variants, it helps to remain flexible. And as facts and events change, we have the flexibility to adapt our view and utilize our capital preservation tools against downside risks and volatility should these materialize.

BLOG OF THE MONTH

ARE WE BULLISH ENOUGH?

Two years ago I made a prediction that got me laughed out of the room. Before we were ever wearing masks, being socially distant, or discussing web3, I argued that, "If history were to repeat itself…the S&P 500 would be 4x higher by 2030 than where it is today." Two and a half months later the S&P 500 was down 33% and the bears had a field day calling me an idiot on Twitter. Thankfully, the market recovered and I still believe in my original prediction. You might be wondering, "How Nick? How could stocks go up 4x from 2020-2029 after the incredible decade they had from 2010-2019?"

Well, because history suggests that this isn't far-fetched. To demonstrate this I looked at the annualized returns of the U.S. stock market (including dividends) over the prior 20 years and compared them to the returns over the next 10 years. Was there a pattern? Did 20-year prior growth have any correlation with growth for the next decade? Yes somewhat.

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PRIVATE WEALTH

INFORMATION AND SOLUTIONS FOR HIGH NET WORTH INVESTORS

HOW TO MINIMIZE TAXES WHEN TRANSFERRING YOUR WEALTH

Let's imagine that you have a net worth of several million dollars at the end of your life. How much do you think will be left to your heirs after taxes are paid?

While there is no inheritance tax in Canada, taxes can still diminish your legacy and leave your loved ones with far less than you expect. Mostly, these taxes arise from the "deemed disposition" of property as well as provincial or territorial probate taxes (which we won't cover here). Canadian tax rules generally stipulate that when you die, you are considered to have disposed of all your assets at their fair market value.

HEDGING AND OTHER STRATEGIES TO PREPARE FOR MARKET VOLATILITY

Stock and bond prices are at record heights. So is the ownership of stocks. Moreover, core inflation rates are at their highest readings since 1987 in Canada and 1991 in the United States, and central banks are beginning to talk about taking the punch bowl away. Lastly, flows into funds, along with IPO and merger activity, are at levels characteristic of market tops. Maybe it's a good time to look into some hedging and market-neutral strategies for investment portfolios? Most money managers that serve high-net-worth clients know how to implement hedging and market-neutral techniques. They can use them to smooth portfolio volatility and ease investor anxiety in the event market fluctuations become severe.

5 INVESTMENT STRATEGIES FOR HIGH-NET-WORTH-INDIVIDUALS

High net worth means different things to different people. To an average household, high net worth may be viewed as someone with a few million stashed away. For wealthier households, the perception may be that only the top 1% with assets in the tens of millions are really defined as high net worth (HNW). When it comes to high net worth life insurance conversations in the context of wealth building and legacy creating, suffice to say that the greater the wealth, the more challenging the planning becomes.

ESTATE PLANNING FOR CANADIANS

In estate planning, Canadians don't have to contend with an estate tax the way U.S. citizens do. However, what many people don't realize is that a "deemed disposition tax" applies when you die. In this article, we'll provide tips on minimizing your estate's exposure to this tax and structuring your estate plan to ensure your beneficiaries get the assets you intend for them.

The deemed disposition tax is so named because your investments are deemed to be sold at death. Any capital gains triggered by their sale are included in a final income tax return filed in the year of your demise.

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CORPORATE CULTURE

Stikeman Elliott

NEW TO THE BOARD? WHAT D&O INSURANCE CAN DO FOR YOU

In the third in our series of posts for new corporate directors, we look at how directors' and officers' (D&O) insurance can help to insulate you against personal legal liability.

While D&O insurance will generally be provided by your company, it is important that individual directors understand what they are and are not covered for.

This post supplements our Directors & Officers in Canada guide, which goes into greater detail about the liabilities that D&O insurance is designed to deal with.

CEOWORLD Magazine

THE ELUSIVE FOURTH "V" OF CORPORATE BEHAVIOR

When I consult with organizations around the world about communicating their values effectively to and through their employees, the mantra is always the same. We created and published a corporate values statement and we hold effective on-boardings so we're good to go.

Go to any corporate website and you'll see some expression of these priorities, often under the heading Our Values. Even corporate mission statements, the short, often pithy paragraphs that describe what a company does, and for whom and how it is done, are often filled with corporate values. Let me give you a poignant, albeit dated example. Perhaps you can guess the corporation?

rh Robert Half® Talent Solutions

14 EFFECTIVE EMPLOYEE RETENTION STRATEGIES

If only the Great Resignation could become the Great Retention, as in employee retention. For now, the turmoil of the labor market is making this a common scenario:

A top performer resigns out of the blue, and you're at a loss. You lean on your remaining team members to take on more responsibility while you search for their colleague's replacement. That becomes the tipping point that pushes them to think about leaving. At the very least, it may affect employee morale, which could undermine work performance and engagement.

WORKPLACE PENSION PLANS

Did you know that you may be retired for as many years as you will work? That's a long time to cover general expenses and have the money to be able to afford your retirement dreams.

As you go through life however, other financial commitments such as a mortgage or financing your children's education may seem to be more important than planning for retirement. But there is something you can do right now to make contributions towards your retirement without having to find a large amount of new money: participate in a workplace pension plan.

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FUND MANAGER COMMENTARY

DAVID STONEHOUSE
AGF MANAGEMENT LTD

MICHAEL CRAIG
T.D. ASSET
MANAGEMENT

BRAD WILLOCK
RBC GLOBAL ASSET
MANAGEMENT

KEVIN MINAS
CIBC ASSET
MANAGEMENT

David Stonehouse, Sr. V.P. Head of North American and Specialty Inv

AGF Management Ltd.

Inflation: From Peak Transitory To Peak Persistent?

By now, last August probably feels like a hundred years ago. Summer remained in full swing. Kids were getting ready to go back to school. Economies around the world were cautiously reopening, even as the Delta COVID-19 variant was spreading.

Continue Reading

Michael Craig, Managing Director

T.D. Asset Management

With markets at all time highs, what are the chances of a crash in 2022?

A crash can be viewed as a significant event that no one saw coming. We are talking about a 20% to 30% correction in the markets. The magnitude of a crash would largely depend on the type of event that preceded it. I don't see this happening in 2022.

Continue Reading

Brad Willock, V.P. & Sr. Portfolio Manager

Regional Outlook—U.S.

The S&P 500 Index generated a return of 1.3% during the three-month period ended November 30, 2021, as robust earnings and extremely easy financial conditions were largely offset by concerns about inflation at a three-decade high, the increased likelihood next year of tighter monetary policy and a resurgence of COVID-19 cases in the U.S. and elsewhere.

Continue Reading

Kevin Minas, Senior Fixed Income Client Portfolio Manager

CIBC Asset Management

MARKET UPDATE—What To Do With Your Fixed Income Allocation Amid Interest Rate Volatility

Summary

- In response to the emergence and spread of COVID-19, central banks around the world provided unprecedented monetary support to keep the global economy healthy.
- As this support winds down, market participants are attempting to anticipate when, and by how, much Central Banks will raise rates, causing interest rate volatility to tick up.

Continue Reading

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CPP Premiums Are Getting A Bigger Bump Than Planned	Paying Off Debt Is Canada's #1 Financial Priority As Inflation, COVID-19 Top List Of Economic Worries For 2022: CIBC	Crypto Scams Top Regulators' List Of Threats
Estate Planning For Pets: How To Protect Your Furry Friends	Investors Are Paying Millions For Virtual Land In The Metaverse	Selling Out
Inflation Hits Highest Level In 30 Years As Bank Of Canada Decision Looms	Canada Well Positioned To Benefit From Rising Rates	Why Jobs Are Plentiful While Workers Are Scarce

TAXES AND ACCESS TO BENEFITS

Evidence from Canada, the U.S. and other areas shows that many low-income people can quickly boost their incomes—sometimes by as much as 50% - if they have the tools and strategies to claim and receive all the government benefits

2022 TAX CARD

This update includes all provincial/territory marginal tax rates for income level and type, interest, capital gains, dividends, EI/CPP, personal/corporate income tax and more.

You will also find provincial tax rates, attribution rules, withholding tax rates for RRSP/RRIF withdrawals, RRIF minimum withdrawal amounts by age, and RRSP/TFSA contribution limits.

VIDEO AND PODCAST LINKS

A Record 4.5 Million People Quit Their Jobs In November	The Bank Of Canada Has Run Monetary Policy Too Loose For Too Long	US Inflation Hits Highest Level Since 1990 At 6.2% As Food And Fuel Prices Surge

FINANCIAL CALCULATORS

INVESTMENT GROWTH CALCULATOR Find out how much your savings will grow over time by making regular investments	FIDELITY myPLAN SNAPSHOT The Fidelity **myPlan** Snapshot enables you to get a glimpse into your retirement finances in seconds.	CANADA MORTGAGE CALCULATOR WITH 40 YEAR AMORTIZATIONS! This mortgage calculator is proudly Canadian made!

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EDITORIAL COMMENT - CONTINUED

The U.S. stock exchanges were the highest performing market with returns averaging approximately 27 per cent while Canada followed at 25 percent. Although international indices lagged, they still managed to eke out returns of 10 per cent. Unfortunately, Bond returns did not fare as well, producing mostly negative returns as mid- and long-term rates began to normalize following the cuts made earlier in 2020.

At first look, 2022 seems to be “the same old, same old” as the pandemic continues to be the dominant theme for capital markets. In the meantime, we are attempting to understand how best to deal with the fifth wave, known as the Omicron variant. Fortunately, governments seem to be taking a different path as they resolve to avoid full economic shutdowns.

We closed out 2021 on strong concerns about inflation and, as we enter 2022 inflation concerns are in a dead heat with pandemic concerns. The favored tool to fight inflation is to raise interest rates and the U.S. Federal Reserve has already planned three rate increases this year while the Bank of Canada is expected to tow the line.

As if things weren’t already bad for fixed income investors, rate increases will put increased pressure on bond prices. The other side of this coin is that I continue to expect equities to outperform bonds. Although I do not expect the same kinds of double digit returns we experienced over the last two years, our portfolios should grow comfortably more than inflation.

The big question we have concerning inflation is whether it will ease up once supply chain disruptions subside, and we are very confident that they will subside. As new strains of COVID surge throughout the world and demand for goods and services remain high, I expect these supply chain disruptions will stay with us until the latter part of 2022. If the powers that be can clear these disruptions up quickly then inflation will likely fall back and settle around the 2.0% to 2.5% range.

I was somewhat intrigued by the FOMC (Federal Open Market Committee) December meeting where they did an about face and revealed a hawkish position on its policy approach. The Fed is now leaning towards the position that inflation is no longer transitory, as they believed early in 2021, and signaled a more aggressive approach towards interest rates. If I were a betting man, I would put my money on three rate increases in 2022 beginning in Q2.

At first look, many investors will become alarmed at the rate increases but I don’t believe they will initially put the global expansion at any risk. Historically, equities have continued to produce positive returns during a Fed tightening. My concern would be focused more on the end of policy tightening when returns may become extremely volatile.

When I take a macro look at the economy, I see investors still have an appetite for risk. This will only increase as wage growth will likely attract people back to the workforce. Corporate health is on solid ground these days, and this can only improve as more people return to work. Currently we have a bonanza climate for corporations as consumer savings and demand are very high. This will aid in supporting corporate profits and keep leverage down.

We never know how much or how quickly central banks will tighten, but I expect most global central banks will not want to create market fear and will therefore tighten slowly. This should help financial conditions from becoming too restrictive, which can create some frightening market reactions. We may still want to hold on to our hats as I anticipate high volatility will remain with us throughout the year.

I do have some concern over the catalysts that may fuel reversals in the market. Of course, at the top of the list is the ongoing COVID-19 spread, especially with new variants popping up unexpectedly throughout the globe. It seems that any negative pandemic news has undermined consumer confidence and simultaneously created a pullback in the markets. My biggest COVID concern is the emergence of a strain that can’t be contained, resulting in an increase in hospitalizations and deaths. I am encouraged that the Omicron strain has not been as serious as the Delta and hopefully any future strains will continue to weaken.

As I extrapolate into the latter months of 2022 and with one eye on COVID, the other eye is on inflation which is rising at its fastest pace since the 1990s. I believe it is fair to state that policy makers and economists hope that inflation is transitory. However, if it continues to remain stubbornly high, central banks will be forced to act by raising interest rates sooner and at a faster clip than our current expectations.

The worry does not end here. On the one hand, if supply chain disruptions subside and reduce inflation pressure, central banks could wind up hiking rates in an economy that is beginning to slow down. These two principals do not mix well. The risk is that it leads to stagflation which no one wants to see happen. On the other hand, if supply chain disruptions subside and inflation does not come down to central bank targets, central bank policy may be to tighten at a much faster pace than the markets are currently expecting.

EDITORIAL COMMENT - CONTINUED

This would likely lead to a lack of investor confidence and a rush to move risk assets out of the markets.

During the period of sub-normal interest rates, investors coined the acronym TINA (There Is No Alternative) to describe the phenomenon of investors paying exaggerated prices for stocks by using the justification that interest rates were so low there was no safe harbor available to invest and earn a positive return net of taxes and inflation. However, if inflation remains elevated for too long it may force central banks to raise interest rates sooner and at a faster pace than current market expectations. If this scenario unfolds, it is almost certain that investors will lose faith in TINA as they eye higher guaranteed returns from Guaranteed Interest Certificates and other fixed income solutions.

It has been many years that we have had to focus so much of our energy and time on uncertain, market disrupting events.

We need to figure whether inflation will be transitory. To accomplish this, we must ascertain the probabilities of certain events occurring, like:

- Will disrupted global supply chains be repaired in the short term?
- Is the housing market strength sustainable, and if so, can the supply side catch up?
- Will enough people return to the workforce to resolve the severe labor shortages?
- Will the relationship between China and the United States result in a long-term move away from globalization? This is a key factor in what has kept inflation pressures down for decades.

These questions are not easily answered which is why it creates a major challenge to model the future level of inflation with any accuracy. Since we have no control over these issues or inflation, we must focus on what we do have control over and that is the structure of our portfolios. I cannot stress enough that diversification will play a major role in maximizing returns and minimizing volatility in our investment portfolios in 2022.

While each of these obstacles presents a challenge to us, we do not believe they are insurmountable. When taking a top-down look, I see a substantial amount of pent-up demand that will continue to provide a base support for the global economy. I believe the global economy will continue to recover during 2022 and am cautiously optimistic on global equity markets this year. My optimism is fuelled by the underlying mutual funds in our portfolios. Our fund management teams are of the highest calibre and are positioned to produce unparalleled value in the years ahead.

Michael Craig - CONTINUED

Perhaps if you had a resurgence of a variant that was vaccine resistant and had a higher mortality rate, or a military conflict in Eastern Europe, these could all possibly cause crashes. Something like the Fed raising rates I don't believe would lead to a market crash. If the Fed gets too far ahead of itself and over hikes, a 10% to 15% drawdown in equity markets is possible. From an investment perspective, a short duration shock is an opportunity to buy on the dip whereas for something longer lasting, you are probably better off waiting until the dust settles before making any investment decisions.

What are your thoughts on the crypto craze?

Crypto is still a very speculative asset. As an investor, you are betting on a completely different financial system that we may inherit in the not-too-distant future. Whether that pans out or not, no one really knows. However, it's certainly a possibility. In terms of an asset class, it is challenging because it is difficult to get a good feel for what the drivers of growth are. Right now, momentum has been behind the large increases we have seen. You are buying on the belief that someone will pay more for your crypto assets down the road. The ultimate litmus test for the crypto currency markets will be the tightening of financial conditions. Back in 2017 and 2018, Bitcoin fell after rates rose. It will be interesting to see what happens in today's environment. I would be cautious on crypto going into 2022 and longer-term. As the asset matures, it is certainly something we are looking at in terms of investment opportunities. Personally, I don't like the idea of allocating funds to an asset that might drop 90% in the short term and then trying to explain this to clients when I don't have a good handle on it myself.

What should we expect for markets going forward?

It's important to look at the bigger picture. Looking back, the 2010s were an interesting decade. You had a period with steady monetary policy that was very loose and with fiscal policy that was very tight. It was an era of relatively low meandering market growth, marked by the rise of passive investing. Economic volatility was low and so was inflation. Fast forward to 2020, and both metrics have broken out. We are now in a decade where I believe we will have materially higher volatility in inflation and growth. Some of the drivers of inflation are transitory while others are longer term. For instance, we are setting up for some real problems with energy because there are no new capital expenditures or supply coming on board to meet growing demand. So, we can probably expect more ups and downs in the markets as a result. We view this as a positive as there will be more opportunity to add value for clients. Risks may also get ratcheted up, requiring us to be on high alert. With respect to governments, I believe the concept of fiscal conservatism is dead. Most developed countries are now running large budget deficits which may not only lead to higher growth, but higher volatility in growth as well. As we all know, markets are sensitive to what goes on in the economy.

Where do you see opportunities in the alternative asset space?

Infrastructure returns in 2021 were strong given rebounding economies and loosening quarantine measures. We see significant opportunity looking forward as the need for new infrastructure intensifies. Renewed government commitments to decarbonizing economies has highlighted the opportunity in renewable energy and power infrastructure as over $140 trillion dollars [USD] will be needed to reach current net zero targets globally. As electricity becomes the core of the energy system, this new demand will create an opportunity for investment. Electrical generation capacity is expected to nearly triple by 2050 and 80% of that growth is expected to come from wind and solar. Portfolios positioned to capitalize on that growth with proven development capabilities will see excess returns over the coming years.

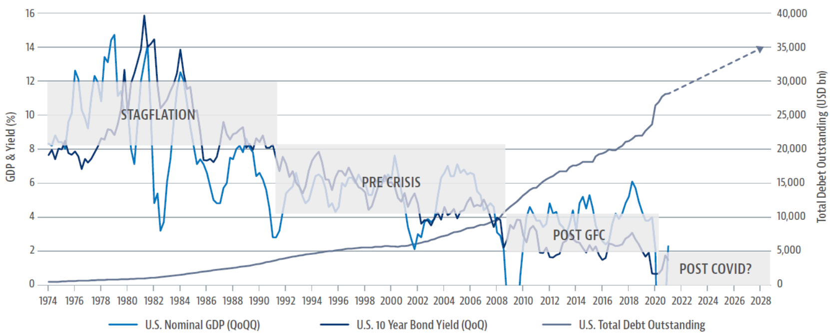
Will the global real estate market cool down in 2022?

Global real estate returns saw a rebound in 2021, and in 2022 we expect more of the same. In the U.S., we believe that the Sun Belt region will continue to be a driver of growth given favourable in-migration patterns which are expected to benefit the multi-unit residential sector. The economic recovery across Europe has improved, largely driven by pent-up domestic demand leading to increased consumer spending. A focus on logistic assets and essential retail within Europe will be contributors of strong capital preservation and income predictability. Finally, we believe having a strategic allocation in the developed Asia Pacific region will be beneficial over the long-term, particularly within the industrial sector as large-scale third-party logistics and e-commerce occupiers continue to expand their networks to meet the rapidly growing needs of consumers.

CHART OF THE MONTH - CONTINUED

We remain constructive on equity markets as we enter 2022, given the backdrop of low long-term interest rates and decent corporate earnings growth. While the Federal Reserve (The Fed) is starting to tighten financial conditions, we expect it will not be overly aggressive in hiking rates given the amount of debt in the monetary system (as shown in the chart below), and themacro recovery will continue

RISING DEBT LEVELS CAP LONG-TERM INTEREST RATES



Source: Bloomberg Finance L.P. as of July 1, 2021.

The key thing to remember is with long term rates anchored, valuations of equity markets are well underpinned. The equity risk premium is relatively attractive at around 3% to 3.5% so there is fundamental valuation support and investors will continue to see equities as the asset class of choice as they're unlikely to find better returns elsewhere.

If you look across equities, even with rate hikes priced in, long term interest rates are sitting around 1% to 2%. Should this hold (as we expect), equities are going to provide an attractive return profile. Whether it be from a staple (4% free cash flow yields and lower revenue growth) or more with growth at a reasonable price (GARP) stocks (3% free cash flow yields, but mid-teen revenue growth). This GARP area is where we see the most attractive opportunities, because while less "defensive" than staples, these are highly resilient businesses. With a more hawkish Fed, we feel it gets more uncertain in higher valuation equities with limited valuation support, such as "concept" style businesses that have limited sales and earnings.

As growth investors, we focus on identifying sustainable growth trends that are underappreciated and mispriced. Structural earnings growth equals share price growth, and this remains our key focus. Over the medium-to-long term, it is far more important to correctly identify an area of structural growth and the companies set to benefit than to try to predict the direction of equity markets or the broader economy. We are currently reasonably fully invested as we approach 2022.

The main risk heading into 2022 is the Fed overreaching with its interest rate policy by hiking into a potentially worsening macro backdrop. Macro uncertainties are higher with COVID-19, and this makes policy slip ups more likely.

To Page 1

Kevin Minas - CONTINUED

- The markets have traded in advance of expected Central Bank actions in 2022 by selling bonds in the present time, causing yields to rise and investors to incur unrealized capital losses in their bond portfolios. The losses are generally higher in portfolios with longer maturities or greater interest rate exposure.

- There are benefits to maintaining an investment allocation to bonds, especially at this point in the rate cycle where they have already experienced a significant sell off, and higher current yields present opportunities for investors who resist the urge to sell.

- We also highlight some ways investors can adjust their fixed income allocation in response to the current market environment without exiting the asset class.

Interest Rate Volatility

Central banks play a key role in establishing interest rates and have many tools at their disposal to guide the market. In addition to controlling overnight rates, a credible central bank will also use forward guidance to influence interest rates by shaping the expectations of market participants. Recent changes in forward guidance by the Bank of Canada has been the primary cause of recent interest rate volatility.

In recent communications, the Bank of Canada has moved up its projection of when the output gap will close from the latter part of 2022 to “middle quarters of 2022”. While this bodes well for the economic recovery underway in Canada, the bond market reacted by pulling forward its expectation for rate increases. In Canada, market expectations have evolved from 1-2 interest rate hikes to now pricing in 5-6 in 2022. As more rate hikes are expected by the market, yields typically rise in the present, causing bond prices to fall, all else equal. This is why many bond funds with higher durations have incurred resent losses.

Similar repricing of interest rate hikes have taken place in the United States, although to a less aggressive extent than in Canada. In our view, market expectations that reflect 5-6 rate hikes in Canada over the next 12 months is very aggressive, especially when fewer hikes are expected south of the border. Given the fact that short-term rates have moved up significantly in anticipation of rate hikes in 2022, there is less risk of further rises in short-term rates compared to just a few weeks ago, and thus less reason to move out of fixed income at this point. If anything, the recent increase in rates can offer attractive entry points for fresh capital to be put to work.

Fixed Income Outlook

Predicting future returns is always a difficult task, especially given the current environment with heightened uncertainties around Central Bank policies and COVID-19. To provide investors with some guidance, we analyze expected Canadian fixed income returns in 3 different economic scenarios:

I. **Lower Economic Growth** - After strong government-induced spending, the consumer runs out of fuel. Disposable income takes a hit as government transfers shrink. Although there is no recession, this scenario is characterized by slower growth relative to our base case.

II. **Base Case** - Positive economic growth above trend, but lower than the market consensus. There is higher inflation in the first half of 2022, which settles towards the long-term trend by late 2022 due to long-term trends in technology, demographics and higher debt loads.

III. **Persistent Inflation**- The supply bottlenecks created by the pandemic are demonstrably hard to fix. Limited supply is met by solid demand as the global economy benefits from the ongoing reopening of businesses. Inflation persists in housing, commodities, goods and eventually spreads to labour costs.

Exhibit 1 – 1 Year Forecast FTSE Canada Universe

	Lower Economic Growth	Base Case	Persistent Inflation
Scenario Probability	**20%**	**60%**	**20%**
Spread change	+30 Bps	-10 Bps	+20 Bps
Impact of spread change	-2.00%	+0.67%	-1.33%
Rate change 10 Year	-63 Bps	+17 Bps	+57 Bps
Impact of rate change	5.10%	-1.37%	-4.62%
YTM	2.08%	2.08%	2.08%
Total Return	**+5.18%**	**+1.38%**	**-3.87%**

This analysis only displays hypothetical returns.
Source: CIBC Asset Management Inc., as of September 30, 2021.

Fixed income assets provide positive total returns in 2 out of the 3 scenarios due to the combined impact of interest rate changes, credit spread changes, and the running yield. These scenarios have a combined expected probability of 80%.

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Kevin Minas - CONTINUED

Rate Shock Hypothetical Analysis

In this scenario supporting Persistent Inflation the previous section, we assume a material increase in interest rates. While this type of scenario is not our base, we used it to illustrate the unique feature of fixed income where the running yield helps to mitigate the near-term shock of a rise in interest rates.

We took a closer look at 4 fixed income strategies offered by CIBC and evaluated the performance in a hypothetical scenario where we experience a 50 bps parallel shift up in the yield curve

Exhibit 2 – Cumulative Return after 50bps parallel shift in the yield curve

Renaissance Short-Term Income Fund	1 Day after Shock	1 Year	2 Year	3 Year
Yield	2.1%	2.1%	2.1%	2.1%
Price Change	-1.3%	0.0%	0.0%	0.0%
Total Return	-1.3%	2.1%	2.1%	2.1%
Cumulative TR	**-1.3%**	**0.8%**	**2.8%**	**4.9%**

Renaissance High Yield Bond Fund	1 Day after Shock	1 Year	2 Year	3 Year
Yield	5.1%	5.1%	5.1%	5.1%
Price Change	-2.2%	0.0%	0.0%	0.0%
Total Return	-2.2%	5.1%	5.1%	5.1%
Cumulative TR	**-2.2%**	**2.9%**	**8.0%**	**13.1%**

Renaissance Corporate Bond Fund	1 Day after Shock	1 Year	2 Year	3 Year
Yield	3.7%	3.7%	3.7%	3.7%
Price Change	-3.1%	0.0%	0.0%	0.0%
Total Return	-3.1%	3.7%	3.7%	3.7%
Cumulative TR	**-3.1%**	**0.6%**	**4.3%**	**7.9%**

Renaissance Canadian Bond Fund	1 Day after Shock	1 Year	2 Year	3 Year
Yield	3.0%	3.0%	3.0%	3.0%
Price Change	-4.1%	0.0%	0.0%	0.0%
Total Return	-4.1%	3.0%	3.0%	3.0%
Cumulative TR	**-4.1%**	**-1.1%**	**1.9%**	**4.9%**

This analysis only displays hypothetical returns. For simplicity no change in portfolio duration and spread was assumed, in practice such large move in interest rates would impact portfolio yields and duration. For the purpose of this illustration, we assumed no change in yield in subsequent years.
Source: CIBC Asset Management Inc., as of November 30, 2021

The primary take away from this analysis is that following the initial negative impact of a 50 bps increase in interest rates(which is quite an extreme shock), keeping all other variables constant, the portfolio will continue to collect interest income. This offsets the negative short-term return experienced immediately after the increase in interest rates.

Conclusion

While we may see continued interest rate volatility and the potential for a small upward bias in rates, expected Central Bank policy changes have already been meaningfully factored into current bond prices and yields.

We expect fixed income to produce positive returns over the coming 12 months. We recommend that investors remain patient and maintain their fixed income allocation as it continues to provide portfolio diversification, income, and liquidity. Given the recent uptick in interest rates, investors have experienced a negative shock similar to the day 1 scenario in our example. However, patience may allow you to recoup your losses and capture positive returns over time.

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Brad Willock - CONTINUED

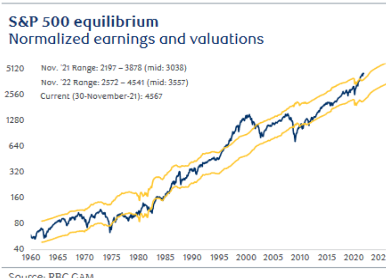
The U.S. stock benchmark was up 24.4% through November to more than twice its March 2020 low, and just off the all-time high close on November 18. Given the changing investment landscape and recent detection of a new coronavirus variant, it seems like an ideal time to evaluate where we stand.

Let's start by recognizing that the pandemic remains our most important economic and geopolitical consideration. On November 26, the World Health Organization declared the latest SARS-Cov-2 variant and named it Omicron. First identified in South Africa on November 9, the variant has a number of mutations that leads some epidemiologists to fear it may pose another significant hurdle as we close in on the end of the pandemic's second year. However, it will take until mid-December to determine how contagious and virulent the variant is, and how effective human immune systems, the current crop of vaccines and anti-viral therapies will be at dealing with this new threat.

The best case would be that Omicron proves less virulent than Delta and replaces it as the dominant strain. The worst case would be that Omicron turns out to be highly contagious and deadly enough that vaccines require significant reformulations to offer protection. In any case, uncertainty abounds, and in such circumstances financial markets typically move over weeks to levels that represent an expected outcome somewhere between the best- and worst-case scenarios.

Investors will be looking closely at the most pandemic-sensitive parts of the market such as travel, gaming, hotels, cruise lines, restaurants and energy. Many stocks in these areas were already down significantly in the weeks before the Omicron news as macroeconomic storm clouds gathered. We will be looking for high-quality companies that appear to be pricing in a worst-case scenario. The appearance of the Alpha, Beta and Delta variants all caused short-lived financial-market sell-offs. Pfizer has said it would take about 100 days to adapt its vaccine formulation to the chemistry of the new variant if needed, giving investors a timeline to recalibrate the risks

> "The path taken by the pandemic will have a lot to say about when and how fast the Fed raises interest rates. The Omicron variant could, if anything, prompt policymakers to pause tightening plans until the outlook becomes clearer."



Source: RBC GAM

On the monetary-policy front, the U.S. Federal Reserve (Fed) has started reducing stimulus, and policymakers have signaled that bond purchases related to quantitative easing will end by June of next year.

Recent 30-year highs in consumer inflation have prompted investors to expect the Fed to accelerate the winding-down of bond purchases and begin hiking interest rates as early as April. The Fed is focused on achieving maximum employment and seems convinced that this year's inflation jump should ease as supply-chain congestion is relieved and demand shifts from goods to services. The path taken by the pandemic will have a lot to say about when and how fast the Fed raises interest rates.

The Omicron variant could, if anything, prompt policymakers to pause tightening plans until the outlook becomes clearer. In terms of fiscal policy, Congress has a lot to get done before its members head home for the year-end holidays. The Democrats' US$1.2 trillion infrastructure proposal has been signed into law by President Biden, but a US$1.7 trillion bill focused on the party's social and climate agenda faces cuts in the Senate after being passed by the House of Representatives. Even prior to the appearance of the Omicron variant, we had begun reducing our exposure to travel, hotels, retail and energy because we thought valuations assumed a best-case scenario with respect to the pandemic.

Data shows that the number of new COVID-19 cases began rising in the majority of U.S. states during the last week of October and that hospitalizations began rising over the last two weeks of November. Still, we have refrained from shifting to an overweight allocation to defensive stocks because the economic backdrop remains constructive. The job market is improving, with first-time unemployment claims at a 50-year low and wages and salaries growing at a double-digit rate. According to the Atlanta Fed, real GDP growth for the fourth quarter is forecast to exceed 8%. Next year, economic growth is expected to slow to between 3% and 4%, which should translate into corporate revenue growth of 7% and earnings growth of 9%. In the meantime, we continue to maintain exposure to long-term themes such as digitization, electrification, decarbonization, artificial intelligence and machine learning, and infrastructure improvement. These are the areas that we believe are likely to experience tailwinds for many years to come.

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Revisiting The Dreaded "F" Word —Continued

Despite our complete transparency, there remains a lot of confusion on the matter, and I would love nothing more than to go over fees as they relate to mutual funds again (and again, and again, if needed). Let me preface this discussion by saying that we do not avoid this controversial topic for a few reasons. First and foremost, we are firm believers in "you (should) get what you pay for." We pride ourselves on adding the utmost value to our clients' financial well being, and most would agree that it is fair to pay a reasonable price for value. Regardless of whether it is justified, it is important to understand what it is you are paying. I am going to shed light on various types of fees involved with mutual funds for information purposes but please note that not of all these are applicable to all firms, namely our own.

When investing in mutual funds, you may pay fees and expenses either directly or indirectly, and there are four main types. Ultimately, these fees reduce the overall return you receive on your investment, however all mutual fund returns are reported NET of fees.

Not all mutual funds have the same fee structure; depending on which funds you purchase, how you purchase them, and what accounts they are held in. One type is sales charges which I will explain in greater detail shortly. Next you have other transaction fees, such as switch fees, which may be charged by the dealer or fund company when you switch from one fund to another within the same fund family (typically negotiable with the advisor). Then there are short-term trading fees, which may be charged by the fund company if you purchase a mutual fund and then sell or transfer it within a short time (i.e., within 30 days). Redemption fees are those where you are charged if you sell your mutual fund within a specified time frame or if you sell above a certain percentage of your investments annually. Then you have account fees which may include things like registered plan fees, or minimum account balance fees.

Finally, there are fund expenses, which are deducted from the fund's assets before a fund's returns are calculated and published. Such fees include management fees, operating expenses (or a fixed administration fee), trailing commissions (paid from management fees), trading costs, and incentive or performance fees. As I've mentioned in the past, for quite some time now our industry has transitioned to full disclosure and transparency when it comes to fees, and information about fees can be found in a mutual fund's Fund Facts and in its simplified prospectus. It is the law that mutual fund companies must prepare and file these disclosure documents with the securities regulator, and since 2016 we have been required to provide investors with a copy of the Fund Facts prior to the purchase of the fund.

Now on to sales charges, or more commonly known as "loads", one of the most challenging concepts to grasp it seems. These are set out by the fund company and may be paid upon the purchase or sale of units/shares of a fund. Certain mutual funds are offered with a front-end load, back-end load, low-load, or no load. Front-end load (FEL) describes funds that charge a fee when you purchase units or shares. It is a negotiable percentage (0-5%) of the investment amount and is paid to the firm that sells the fund. Back-end load (DSC) describes funds that charge a fee (0-6%) when you sell units or shares of a fund, which is paid to the mutual fund company. The longer you hold a fund with a DSC, the less you'll be charged when you sell it, as the fee declines every year according to a fixed schedule. If held long enough, typically 5-7 years, no fee is paid when the units/shares are sold. Most fund companies allow you take some of your money (usually 10%) out of the fund each year without charging a fee. The advisor's firm receives commission (usually about 5%) up front from the mutual fund company when you buy the fund, and the advisor receives part of this commission.

Low Load (LSC) refers to funds that charge a lower sales charge (up to 3%) when units are sold, and these can typically be avoided altogether if units are held for a minimum of 3 years. Finally, there are funds that don't charge a fee when you buy or sell units/shares, known as no load funds. It is important to note that no load funds may not always be a better deal than a load fund, and it is important to compare the MER and performance of each fund.

Speaking of MERs, these are the funds' management expense ratios and are comprised of a management fee and operating expenses. They're paid by the fund and are expressed as an annual percentage of the total value of the fund. They can range from less than 1% to 3% or greater. These are not paid directly by the investor, but are paid by fund, thus reducing the overall return of the fund. The management fee charged includes items such as fund administration, overseeing the fund, and hiring professional portfolio managers. On the other hand, operating expenses includes bookkeeping, administrative fees, marketing costs, filings with the provincial securities commissions, GST/HST, and legal, audit and custodian fees. The MER remains the same regardless of the fund's performance.

Most mutual fund companies set out and pay a trailing commission (or trailer fee) each year to the company that sells the fund, for as long as you hold the fund. Trailing commissions are paid out of the fund's management fee and typically range from 0.25% to 1.5% of the value of your investment each year.

Revisiting The Dreaded "F" Word —Continued

Trailers are paid by the mutual fund company for the services and advice the company and advisor provide to the client.

Over the next few months, a movement in our industry that has been underway for several years will finally come to fruition- the end of deferred sales charge (DSC) funds. As such, the most recent trend is that many financial advisors are shifting from commission-based advice to a fee-based compensation structure.

Fee-based advisors receive the same flat fee, or a percentage based on assets under management, in lieu of traditional commissions, for their advice or planning services. Fee based advisors who charge a flat or hourly fee for the services they provide, depending on the engagement, may provide limited or comprehensive advice. On the other hand, some fee-based advisors opt to charge a percentage based on assets under management, such as 1%-2% of the investment account value.

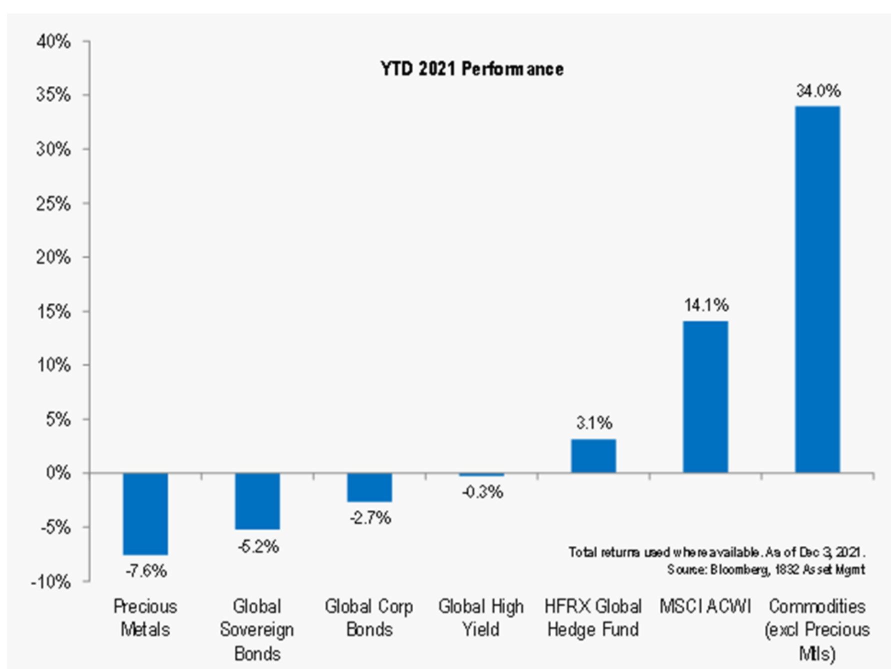
There are many benefits to fee-based advice, such as decreased probability of conflicts of interest, more objective advice, and a more transparent pricing structure. Fee-based is not the perfect solution for everyone however it is viewed as more transparent as fees charged for advice are upfront and more visible. On the other hand, some argue that fee-based advice is more expensive or skewed to higher-income clients and can be more limited in product and service offerings.

Fee-based mutual funds do not include a trailing commission as a component of their MER, therefore having lower MERs than other series of the same fund. Account fees and trailing commissions are both fees for the advice, access and services investors are provided with. For fee-based investors, account fees are charged directly to the investor by their advisor and the dealer they work for. On the other hand, trailing commissions are embedded in the MER of a mutual fund. As the mutual fund manager collects this commission, they pay the mutual fund dealer and advisor.

At the end of the day, it is important to understand that the quality of the advice you receive is not solely linked to an advisor's compensation model. Critics argue that the kind of advice provided may be affected by the advisor's compensation model, and I am sure this may be the case for some. I would argue that although drastically different, there are scenarios that warrant each of the different models of compensation. Regardless of the compensation structure, we as financial service professionals have a duty to do what is in the best interest of our client, ensuring the products we recommend are the best fit for their situation and meet the standard of suitability, first and foremost.

Risk & Inflation In Three Charts—Continued

First, here's a simple chart that shows the 2021 returns from various asset classes:



Equities (i.e. the MSCI ACWI) and commodities were the clear winners last year; whereas, if you owned bonds or precious metals, things didn't go quite as well. It's great to have hindsight now, but even back in January 2021, I remember having many conversations with new and existing clients about the problems of looking to bonds for safety. It was a losing bet and continues to be, especially this year when rates are expected to climb. Unfortunately, equities are still considered the riskier investment when compared to bonds, which brings us to our second chart.

This second chart shows us that we need to take on more risk to achieve the same return 10, 20, 30 years ago. For example, the chart below shows us what you needed in a portfolio to achieve a 9% return. In today's numbers, a 9% compound return is considered "high-risk" and under many planning assumptions, it would be labelled as "aggressive. This is because, achieving a 9% rate of return over the last 10 years meant you would have to own 48% equities and 52% US Treasury and that you would have a maximum drawdown of -23%!

Mean Variance Efficient Asset Class Mix to Achieve 9% Return

	US T-Bill	US Treasury	US Corporate	US Equities	Portfolio Volatility	Max Drawdown
1981 to 1991	85%	0%	11%	3%	1.6%	(2.0%)
1991 to 2001	0%	74%	0%	26%	5.3%	(9.7%)
2001 to 2011	0%	0%	100%	0%	6.3%	(19.3%)
2011 to 2021	0%	52%	0%	48%	6.0%	(23.1%)

Source: 1832 Asset Management, Bloomberg

The same 9% return from 1981 to 1991 would have a maximum drawdown of -2% and you would only need a portfolio containing 3% equities. I can barely believe it would be possible to achieve a 9% rate of return when most of your money is tied up in US T-Bills. For those that don't know, U.S. T-Bills are considered the safest, least volatile asset class. As of February 7, 2020, a 3-month US T-bill has a return of 1.56%. The current increase in inflation is about 3 times that, so to put it bluntly, your T-Bill is providing you with a negative return when inflation is a factor. You'll protect your principle, but you may also find you'll go broke slowly. The good news: if you can stomach the big drops, and not make emotionally charged investment decisions, you can still achieve a good rate of return. Otherwise, you may have to settle for something a bit lower.

Inflation is the perfect point to move into my next chart about rising inflation. When it comes to investing, doesn't it seem like there is always that one topic that dominates conversation: Bitcoin, blockchain, trade wars, pot stocks, meme stocks, IPOs, growth vs value, etc. Well, it appears inflation is the new headline and here's why: Inflation is rising across the world and is the highest it has been in quite some time.

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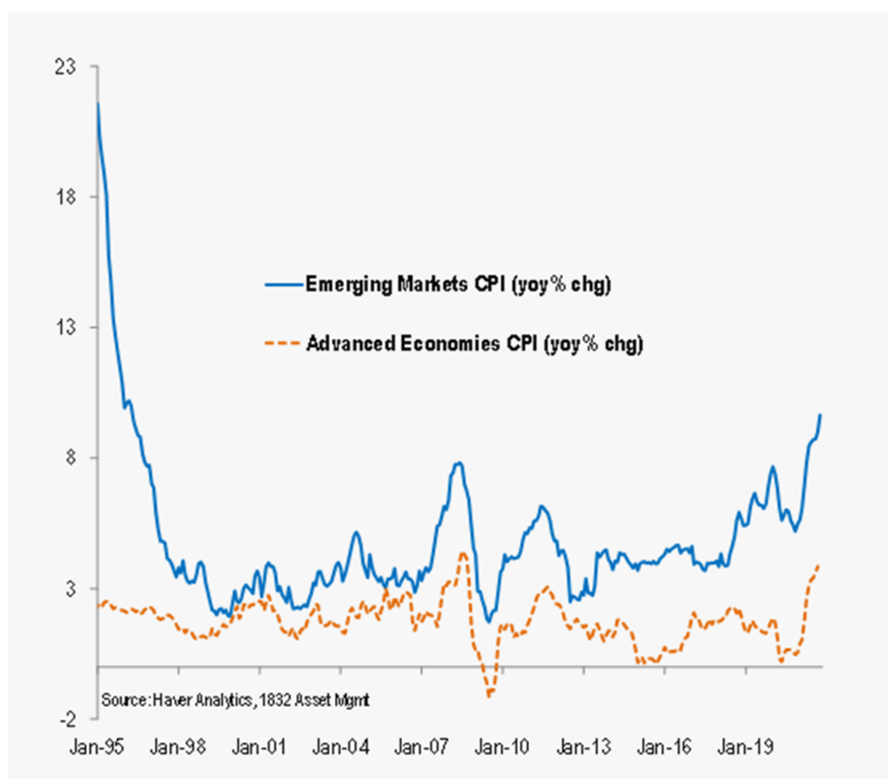
Risk & Inflation In Three Charts—Continued



Inflation has been rolling in at a faster-than-expected pace for well over a year. It's rising in most countries and has spread into expenditure categories outside of those initially and most directly impacted by the pandemic. For example, in the U.S. and Canada, core Consumer Price Index (CPI) inflation is running at 4.6% and 3.8%. This is the fastest increase since the early 1990s. Here's some examples of where prices are increasing:

- Beef +24%
- Hotels +26%
- Laundry Equipment +15%
- Gasoline +51%
- Used Cars +26%
- Eggs +12%
- Furniture & Bedding +12%

Why should the average investor care about rising inflation? There's lots of reasons, but I think the biggest reason is that it erodes your future purchasing power. In other words, the money you have saved right now will be worth a lot less in 10, 20, 30 years from now. It means you can be a conservative investor with a low volatility portfolio and make between 2%-5% over the next 10-years; but factoring in an increasing inflation rate means you are earning much less (possibly a negative amount). Your financial advisor should be able to calculate your projected inflation adjusted returns over the next 10, 20, or 30 years. In doing so you'll be able to better decide whether you'd prefer to stomach inflation or increased market volatility. Any way you look at it, it's shaping up to be one or the other at this point.

Wealth Between Generations—Continued

Life changes fast and often but there is always one constant, and that's finances.

If you are like me and many other families, one of our greatest concerns is knowing the best way to transfer wealth to our children and grandchildren, all while paying the least tax possible.

Cascading life insurance, also known as 'The Waterfall Concept' or 'Intergenerational Wealth Transfer', uses permanent life insurance on a child or grandchild; protecting them while using this strategy as a tax vehicle to transfer wealth to the next two generations.

The first step would be for the grandparent ("first generation") to purchase a whole life insurance policy. As the owner of the policy, you will pay into it for several years. The adult child ("second generation") is both the life insured as well as the contingent owner of the policy. The grandchild ("third generation") is the beneficiary of the policy.

When the grandparents pass away (or the policy is transferred to the adult child prior to the death of the grandparent), the adult child becomes the policy owner. Keep in mind that part of the premium paid has gone towards paying for the policy and the other portion has gone into a tax-sheltered investment.

The transfer of the policy to the new owner (second generation) is tax-free. The new owner has the option to use funds from the cash value accumulated, take a policy loan, or even purchase a policy for third generation to further cascade the wealth or keep the policy for the grandchild.

The grandchild (third generation) will receive the death benefit when generation two pass away free of income tax or probate fees.

A few things to keep in mind:

⇒ Purchasing life insurance on a child or grandchild can be inexpensive.
⇒ Purchasing insurance at a younger age protects from future un-insurability.
⇒ Growth is tax-sheltered
⇒ Transfer of assets to second and third generation is done in a tax efficient way.
⇒ Death benefit is received tax free.
⇒ Ownership transfer of a policy to a child or grandchild before or after death of the original policy owner is tax free.
⇒ The new policy owner has access to the cash value and access to funds for a lifetime as long as the policy remains in force.

The grandparents or parents have left a legacy for their loved ones.

We have just touched on the basics of how Cascading Life Insurance can change the future generations' wealth. Things like contingent owner and irrevocable beneficiary will be discussed when putting together your legacy plans. We want every family to achieve financial wealth and security. If your desire is to gift wealth in an efficient tax-free manner to the next generation this may be a great option for you.

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An investor proposing to borrow for the purchase of securities should be aware that a purchase with borrowed monies involves greater risk than a purchase using cash resources only. The extent of that risk is a determination to be made by each purchaser and will vary depending on the circumstances of the purchaser and the securities purchased.

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.

Investors should educate themselves regarding securities, taxation or exchange control legislation, which may affect them personally. This newsletter is for general information only and is not intended to provide specific personalized advice including, without limitation, investment, financial, legal, accounting or tax advice. Please consult an appropriate professional regarding your particular circumstances.

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