Kleinburg PRIVATE WEALTH

Carte WEALTH MANAGEMENT INC.

KPW LIFE PLAN—IMAGINE YOUR FUTURE

VOL. 11, ISSUE 2

FEBRUARY 2022

"A good financial plan is a road map that shows us exactly how the choices we make today will affect our future." **- Alexa Von Tobel**

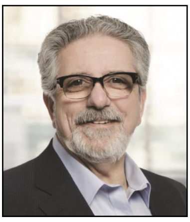
Sergio Simone
EDITORIAL COMMENT

Kristina De Souza, CFP
COPING WITH CURRENT FINANCIAL CHALLENGES

Roberta Di Petta
DO "SEG" FUNDS FIT INTO YOUR FINAN-CIAL PLAN

Ryan Simone, CFP, CLU
FINANCIAL PLANNING CASE STUDY

EDITORIAL COMMENT



Sergio Simone

If I was prone to titling my Editorials, this one would be called: **"Don't Sweat The Small Stuff and Keep Your Eye on the Long Winding Road Ahead".**

Years ago I worked for a man who constantly used the phrase, "Buyers Are Liars". Over time I have learned that as much as this may be true, it is not the "Buyers'" intent to be liars, it is just that buyers are often unaware of what they truly want. Sometimes this is from lack of experience, for example in investing their funds, and sometimes it is lack of knowledge and understanding of what they are signing up for.

COPING WITH CURRENT FINANCIAL CHALLENGES

Kristina De Souza, CFP

There is one simple concept that's relevance and value has withstood the test of time. It's a basic but vital principal of financial management and given the last couple of years we have faced, it's a timely recommendation worth revisiting. It goes without saying that the pandemic has wreaked havoc and instilled uncertainty in nearly all walks of life. Although we are moving forward in many ways, uncertainty persists, and as such, we continue to emphasize the importance of managing cash flow and having an emergency fund. Often this type of savings is referred to as a 'rainy day fund'.

DO "SEG" FUNDS FIT INTO YOUR FINANCIAL PLAN

Roberta Di Petta

In building a retirement plan or growing your financial legacy, segregated funds, also referred to as seg funds, are a smart and secure option for investors. I do not feel that we talk about this fantastic tool enough. Segregated funds are an investment similar to a mutual fund, as they are market-based, but come with unique benefits that can help you reach specific goals. Similar to other investments, the specific segregated funds would be decided based upon the investor's risk tolerance, among other factors, and financial goals that they are striving to achieve.

ESTATE PLANNING: The "let the kids use the inheritance to pay my estate liabilities" Case Study

Ryan Simone, CFP, CLU, CHS

The following is a real situation I am currently guiding somebody through. I've changed names and details to protect this person's identity.

Neil is a single 43-year-old and his mother recently passed away. Neil has an adopted sister named Jonie.

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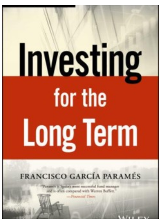
VOL. 11, ISSUE 2

FEBRUARY 2022

To Page 1

To Links Page

BOOK OF THE MONTH



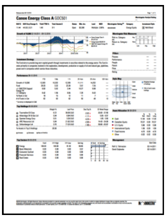
INVESTING FOR THE LONG TERM

- by Francisco Garcia Parames

World-renowned investor Francisco Garcìa Paramés shares his advice and tips on making smarter choices for their portfolio. He explains why one has to invest in real assets, and specifically in shares, to maintain the purchasing power of ones savings, and avoiding fixed income at all costs.

Parames shares with his readers how he weathered two of modern times' biggest economic crashes.

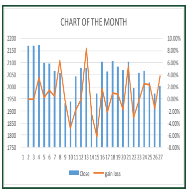
FUND OF THE MONTH



DYNAMIC DIVIDEND FUND

This is a core Canadian Dividend Fund offering a stable conservative monthly income stream and the potential for capital appreciation. The portfolio managers invest in high-quality Canadian companies with attractive free cash flows and growth. The fund is actively managed and the assets are distributed to a diversified portfolio of holdings. Top holdings include TD Bank, Royal Bank, Bank of Nova Scotia, Microsoft, and Canadian National Railway Company.

CHART OF THE MONTH



Market Volatility - It's Normal

It can be a gut-wrenching experience to be invested in the equity markets during your first severe downturn, but take a step back and look at it analytically and you will realize "It Is Normal".

The following chart shows the price level of the Chicago Board Options Exchange) VIX, which measures expectation of implied volatility within the S&P 500 Index and the return of the S&P 500 Index. Although periods of volatility can be hard to weather, the market will recover and normalize. Those who remain focused on the long-term by staying

THE FELDER REPORT

BLOG OF THE MONTH

STILL EXTREME LEVELS OF 'RIDICULOUSNESS'

Despite the strong two-day rally to finish the month, January was the worst start to the year for the Nasdaq (down 19% peak to trough) since 2008. And if not for that two-day rally, it would have been the worst start for the Nasdaq ever – and ever, as they say, is a very long time. As a result, you might have thought that the decline would have made some progress in normalizing valuations but you would have been wrong. The median stock in the S&P 500 Index is still roughly 20% more expensive than it was pre-pandemic and 70% more expensive than at the peak of the DotCom Mania in 2000.

Moreover, there are still 60 stocks in the S&P 500 Index that trade at more than 10-times sales. During the depths of the Dotcom bust (almost exactly twenty years ago) after witnessing his own stock price plunge by more than 90%, Sun Microsystem's Scott McNealy famously suggested this degree of overvaluation was "ridiculous."

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PRIVATE WEALTH

INFORMATION AND SOLUTIONS FOR HIGH NET WORTH INVESTORS

81% OF ULTRA-HIGH-NET-WORTH INDIVIDUALS USE ALTERNATIVE INVESTMENTS

It's no secret that the ultra-rich have access to alternative investment opportunities that seem unavailable or unobtainable to the average investor, like expensive wine, vintage cars, fine art, equity in private companies, and real estate.

What may come as a surprise is that ultra-high-net-worth investors (those with a net worth of at least $30 million) have, on average, 50% of their assets in alternative investments. And they are likely to allocate even more of their portfolio toward alternative investments in coming years, despite the recent strong performance of major stock market indices.

Before going further, let's define "alternative investment."

WHAT IS THE VALUE OF TAX MANAGEMENT IN LEGACY PORTFOLIOS?

Tax loss harvesting is broadly recognized as a means to generate positive alpha over an index in the form of tax savings. However, most of the extensive research on the value of loss harvesting in separately managed accounts assumes that portfolios are funded with cash. It is also not uncommon for loss-harvesting providers to produce composite reports that include only accounts that start with cash.

In practice, about half of Aperio's clients with taxable accounts fund those accounts with securities. For these "legacy" portfolios, Aperio's active tax management provides two main tax benefits.

HOW HIGH NET WORTH INDIVIDUALS INVEST: THEIR ASSET ALLOCATION BREAKDOWN

If you want to get rich, you might as well see how high net worth individuals invest. Specifically, it's good to see their asset allocation breakdown. Then, you can follow what rich people do with their money to boost your chances of getting rich as well.

In a previous post we learned that the wealthier one gets, the larger the business component in the individual's net worth composition. Once you hit a net worth of $100 million, the business component reaches roughly 50% of net worth. Although most of us will never reach such levels of wealth, it's obvious you should start a business if you hope to get really rich one day.

WEALTH TRANSFER STRATEGIES

When we consider the effects of taxation on our savings, it can be an estate's worst enemy. Taxation can reduce growth on assets when they are kept in taxable investments. There is an alternative to paying tax on the investment growth earned on your savings. You may re-allocate the funds using the wealth transfer strategy, which will allow you to maximize your savings, and provide a larger tax-free benefit for your heirs.

To Page 1

Disclaimer

VOL. 11, ISSUE 2

FEBRUARY 2022

CORPORATE CULTURE

BANK OF AMERICA

5 WAYS TO FUND YOUR STARTUP

ENTREPRENEURSHIP HOLDS A SPECIAL APPEAL for many women. “Being your own boss is a path to both pursuing a passion and achieving better work-life balance,” says Sharon Miller, head of small business at Bank of America. But, she notes, it also can present some special hurdles.

While more than three-quarters of entrepreneurs rely on personal savings or income to fund their startups, according to SCORE, a small business resource partner of the Small Business Administration (SBA).

Government of Canada Gouvernement du Canada

SHARE STRUCTURE AND SHAREHOLDERS

The share structure of your corporation is established in its articles. A person who owns shares in a corporation is called a shareholder.

The articles are required to set out the classes and any maximum of shares that the corporation is authorized to issue.

The articles can allow for one or more classes of shares. There is no limit on the number of classes of shares that can be set out in the articles. If there is more than one class, the rights, privileges, restrictions and conditions for each class must also be indicated in the articles.

Sun Life

HOW DO EMPLOYEE PENSION PLANS WORK?

Working for a company that offers a pension plan is one of the greatest financial benefits in Canada. But what is an employee pension plan and how can it help you achieve your retirement savings goals?

Employee pension plans can vary. So a good place to start is with the basic differences between pension plans and what the benefits are.

How can you make the most of your pension plan?

Equitable Life of Canada®

EMPLOYEE BENEFITS FOR SMALL BUSINESSES

For small organizations, offering employee health benefits can be a challenge. But being a smaller company doesn’t mean a benefits plan is out of reach. Fortunately, there are simple ways for employers to create the plan that’s best for their organization without breaking the bank.

Every day, according to Statistics Canada, 14.5 million people go to work at a small or medium-sized place of employment. It is no wonder these employers are often and accurately referred to as the backbone of the Canadian economy. A key to the success of these employers is the quality and contributions of their employees and their ability to attract and retain the right talent.

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FUND MANAGER COMMENTARY

KATHLEEN WYLIE
QV INVESTORS

SEBASTIEN MC MAHON
INDUSTRIAL ALLIANCE

ANDREW McCREATH
FORGE FIRST ASSET MANAGEMENT

TODD MATTINA
MACKENZIE INVESTMENTS

Kathleen Wylie, Manager, Business Development and Client Relations

QV Investors Inc.

Value Investing Makes A Comeback In Canada

Hip hip hooray! After lagging growth managers for three consecutive years, value investors in Canada were back in favour in 2021. Of course, we're celebrating this at QV Investors given our focus on quality and value.

Continue Reading

Sebastien Mc Mahon, Senior Portfolio Manager

Industrial Alliance Insurance and Financial Services Inc.

Sailing Into Uncertain Waters In 2022

What fascinating times these are for global macro! The number of competing storylines right now is so prolific that it's hard to turn off the news. Let's see: the world is fighting Omicron, the fastest-spreading COVID-19 variant we've yet encountered; about 10 billion vaccine doses have so far been administered worldwide; the world has largely reopened; and consumption of goods is back full force.

Continue Reading

Andrew McCreath, Chief Investment Officer

Forge First Asset Management

Last Fall, we suggested policy accommodation had peaked and this inflection would catalyze a prolonged unwind of the multi-year outperformance of growth stocks versus value-based equities. This gradual process continued during the month of January.

Continue Reading

Todd Mattina, Chief Economist, Portfolio Manager

Mackenzie Investments

Emerging Markets: Worth A Look?

Highlights

- In 2021, emerging market (EM) equity indices were weighed down by China's regulatory crackdown and EM currency weakness, but some individual EM stock markets still posted solid gains
- With China now easing its macro policy stance, and with persistently strong global demand for both manufactured goods and commodities, EM equities are well positioned to outperform developed market (DM) equities over the next

Continue Reading

VOL. 11, ISSUE 2 FEBRUARY 2022

To Page 1

LINKS

To Page 2

Had COVID-19 Relief Last Year? Plan For Taxes	RRSP Overcontributions—Ignorance Isn't Bliss	Incomes Top Pre-Pandemic Levels, OECD Says
CANADA: Draft Legislation On Trust Reporting, ETF Taxation Released	The Curious Case Of Rising Stocks In The Night Time	Normalizing But Not Back To Normal: The U.S. Job Market In 2022
Russia, Ukraine And Oil Prices	Europe's Consumers Are Sitting On 1 Trillion Euros In Pandemic Savings	Do You Have An Emergency Fund? Here's Why You Should

OECD

GROWTH AND ECONOMIC WELL BEING

Real household income per capita rose by 0.2% in the OECD area in the third quarter of 2021 compared with the previous quarter. Household income increased in most member countries, but this was offset by a 1.0% decline in the U.S.

WORLD BANK GROUP

GLOBAL ECONOMIC PROSPECTS

As the world enters the third year of the COVID19 crisis, economic developments have been both encouraging and troubling, clouded by many risks and considerable uncertainty.

The good news is that output in many countries rebounded in 2021 after a sharp decline in 2020. Advanced economies and many middle-income countries have reached substantial vaccination rates. International trade has picked up, and high commodity prices are benefiting many developing countries.

VIDEO AND PODCAST LINKS

How To Inflation Proof Your Portfolio	Why It's So Important To Invest For The Long-term	Rising Rates To Create Currency Winners And Losers

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!

EDITORIAL COMMENT - CONTINUED

The most important thing an investor can do before releasing one cent into the investment world is to spend some time assessing and matching their investment strategies to their investment goals. While options like GICs and fixed income solutions are better suited for investors focused on Capital Preservation and short-term horizons, investors who are focused on long-term wealth should focus on equity-based solutions.

It is important that investors understand that higher potential returns do come with a cost, and that cost is volatility. If you are not prepared to pay this price, then I recommend that the Fixed or Guaranteed Income routes are the best for you. That being said, if this is the route you choose, then understand that there is a price to pay for these guarantees and low risk solutions. That price is the slow and gradual deterioration of the spending power of your investment. I like to refer to this as “going broke slowly”, at least initially as you will go broke more quickly when these assets are turned into income.

Inflation will be your greatest nemesis. As the cost of living rises, your purchasing power diminishes. For example, the average cost of groceries in the last 10 years has increased more than 20%. If you require the entire spending power of your investment at retirement, you will want to keep up with the rising cost of living. You need to ensure that your investment is growing at a greater rate than inflation. To make matters worse, Canada Revenue Agency insists on being your partner in these types of investments and has declared that these types of investments will be taxed at the highest level they can impose.

So, the double-whammy is that your fixed income investment has to earn more than inflation and the tax that is placed on the growth of this investment. To put this into perspective, over the last 10 years you would have had to earn 20% to keep up with inflation, and if your are in a 50% tax bracket, another 20% for your partners in Ottawa.

In real dollars, a $100,000 investment allocated 50% to CDN Government Bonds and 50%-to-3-month Treasury bills would have grown to approximately $103,888 net of taxes over the last 10 years. Unfortunately, the same spending power as the original investment would now require $119,800. This investor has actually lost $15,912 of spending power in those low risk, low volatility investments.

Interestingly, the same investment in the highly volatile S&P/TSX (Cdn) Composite would have grown to approximately $205,000 net of taxes, more than double the “safer” route. My conclusion is that long-term investors should be mindful when investing in low-returning conservative investment vehicles such as GICs, bonds and cash equivalents as there is risk that inflation and taxes can significantly erode returns.

Inflation is the ***“silent risk monster”*** attacking all of our portfolios. It lingers in the background and usually appears as a small, insignificant impediment that we do not notice until it is too late and has caused irreperable devastation to our portfolio spending power. It is important that investors protect their capital through equity-based solutions.

I have tried to encourage an attitude of ***“emotionless investing”*** with our clients. It is critical not to overreact to falling markets because despite the downfalls and pauses, markets have always had a strong recovery after they fell. In fact, I will go so far as to say, with a high level of certainty, that declines in the market can create great investment opportunities and should be relished instead of feared.

I have eagerly been anticipating and waiting for this current correction. It has created a much needed entry point into the equity markets. The added bonus is that it has come at a time that many investors are ready to top up their RRSPs.

You will benefit by committing to staying invested for the long term. In the short term, equity markets tend to be volatile. By focusing on the day-to-day market fluctuations and the constant noise made by market pundits on the various business channels, you may be influenced to react and potentially miss out on market opportunities. Too many investors pay attention to the wrong sources and find themselves locking in losses by selling at the bottom. Wouldn’t it have been more prudent to stay invested and catch the potential rapid rise after markets turn. Over the last 10 years Canadian equities have made significant recoveries after every single time they retreated, validating the importance of staying the course and holding tight to that long-term investment approach.

As a long-term investor, your risk is not short-term volatility, it is the failure to achieve your investment goals. This can be remedied by staying invested for the long-term. The bottom line is that equities have outperformed fixed income and guaranteed investments and provides investors with the best probability and solution for building that much sought after, lifestyle sustaining nest egg.

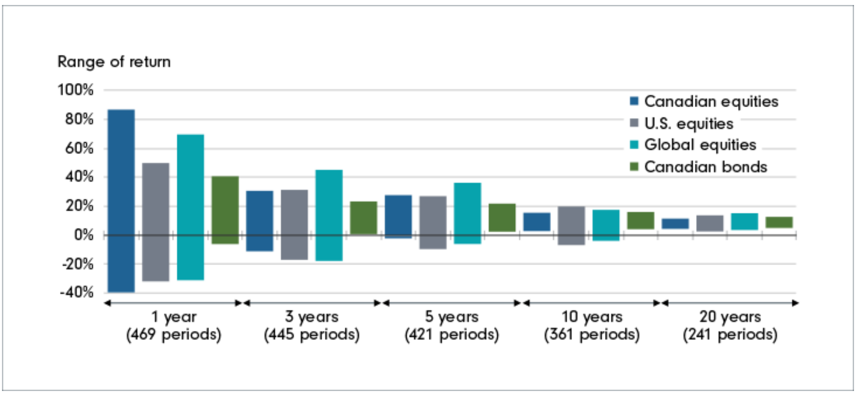
To Page 1 Disclaimer Continue Reading

EDITORIAL COMMENT - CONTINUED

There is an adage in the investment world that says: ***"It's not about timing the market; it's about time in the market that pays off in the long run."*** This is backed up by the fact that over the last 30 years, Canadian equities have had a meteoric rise as equities have significantly outperformed both 1-year and 5-year GICs. There is little doubt that long-term investments in equities is the best way to maximize upside potential and reach your financial goals.

Rest assured that time will reduce the overall volatility of your returns. The following chart illustrates a comparison of the highest and lowest returns for various investment time frames from December 1980 to December 2020. During that period of time there have been 457 one-year sample periods.

It is clearly evident that staying invested over time reduces volatility, even across different investments.



Recently, Dalbar, Inc., completed a study on investor behavior. Their conclusions where quite astounding. They determined that for the 20-year period ending December 2019, the S&P 500 Index averaged 6.06% ex-dividends rate of return per year. Meanwhile the average investor in the index earned a market return of only 4.25%

They determined that emotional and illogical investor behavior was the cause. The study showed that investors added more to their portfolios when markets where going up and withdrew more when they were declining. As a financial advisor, this is mind-boggling. It is like going to a shoe store and buying my favorite shoes every time they raised the price and returning them to the store, that will only give you the current price back, when the price fell.

This is the type of irrational investor behavior that causes investor market returns to be substantially less than historical market returns. The tendency to overreact intensifies during periods of personal uncertainty like when nearing retirement or when the economy is struggling.

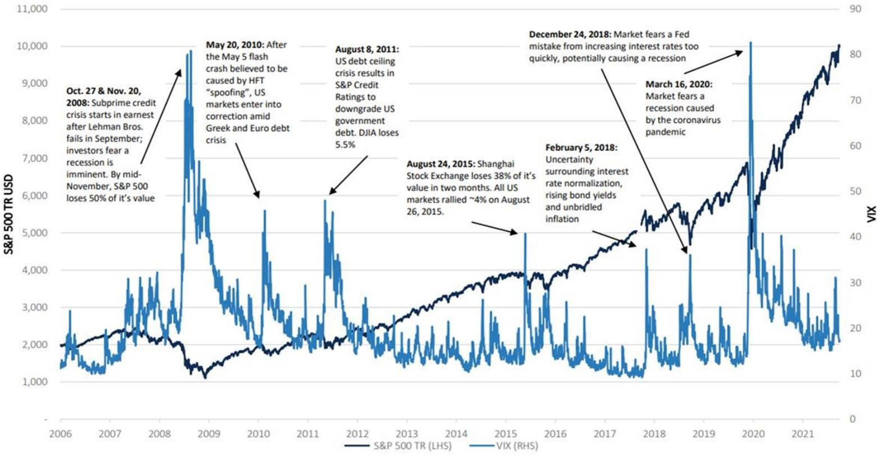
One of my favorite analogies comes from Gene Fama Jr., a famed economist. He said, ***"Your money is like a bar of soap. The more you handle it, the less you'll have."***

If your funds are allocated correctly for a long-term horizon, you should never have a need to sell equities during a down market cycle. The key being cycle. All cycles constantly evolve. They work in circles, not straight lines. Just as you are unlikely to sell your home during a falling real-estate market, you shouldn't be selling your investment portfolio positions during a bear market cycle.

Many people have recently been using the phrase, ***"Trust The Science"*** in connection to pandemic recommendations. This also applies to investing. A disciplined approach to investing delivers higher market returns. I know it sounds simple and boring, but the bottom line is that it has been proven to be successful time and time again. If you cannot find the discipline to invest unemotionally, then perhaps you should check out those GICs and Fixed Income investments.

CHART OF THE MONTH - CONTINUED

invested will be rewarded. The chart follows the track of an investment of $2,000 made in 2006 compared to the levels of volatility. A VIX value between 13-19 is considered the normal range of expected volatility over the next 30 days. A Vix of 20 to 30 indicates that you can expect volatility to be higher than normal over the next 30 days. In absolute terms, VIX values greater than 30 are generally indicative of large volatility resulting from uncertainty, risk, and investors' fears. VIX values below 20 generally correspond to stable, stress-free periods in the markets.



Source: Bloomberg Finance L.P., CI Global Asset Management. As of December 31, 2021 using daily returns.

There is a highly correlated experience between higher than normal VIX and lower market values. The VIX has peaked at or around 80 twice since 2006. Once in 2008 as a result of the Subprime credit crisis and again in March 2020 as fears of a recession are caused by the coronavirus pandemic. The markets reacted to these crisis with extraordinary drops in value.

Between those two severe market drops we have experienced numerous VIX spikes of varying degrees and yet that initial $2,000 investment has grown to $10,000 over that 15 year span.

Let's put this in perspective. An investor who is reluctant to take on some equity volatility risk and put their money in a Guaranteed Interest Certificate over that same period of time would have grown their $2,000 investment to approximately $2,700.

An investor living through all the periods of greater volatility will experience some soul-searching moments, but at the end of the 15 year period, that investor will have earned more than 10 times the return.

This is not a one of event. It has occurred with regularity throughout the history of the index. Do not lose sight of the fact that Market Volatility is Normal.

Do “Seg” Funds Fit Into Your Financial Plans - CONTINUED

Though mutual funds and segregated funds have similarities they also differ in unique ways. Segregated funds are insurance contracts commonly used by Canadian insurance companies which gives them a few extra perks that mutual funds do not.

Segregated funds are individual contracts sold by insurance companies that invest in funds. To simplify, think about a mutual fund marrying a life insurance contract, and the result is a segregated fund.

With segregated funds, 75-100% of your principal may be guaranteed at the maturity date. For example if the investment starts off at $100,000 and grows to $125,000, and subsequently drops to $98,000, you would be guaranteed 75% to 100% (depending on the contract) of the original principal of $100,000. (Keep in mind these values used are used as an example only).

In order to take advantage of the maturity guarantee, the investment needs to be in place for a certain amount of time, usually 10 years. In addition, the MERs (management expense ratios) are slightly higher for segregated funds than mutual funds due to the insurance attached to the investment. There is also a small “guarantee fee” charged by some investment companies, usually around 0.1-0.2%.

If we look back to my previous example, the market value of the account reached $125,000 at one point. This amount can become the new guaranteed amount in some cases, depending on the contract, which is referred to as a reset of the guaranteed amount. When resetting the guarantee, some funds allow you to reset the full gain ($25,000) or a portion of the gain. Be mindful that often resetting the guarantee also means resetting the time horizon.

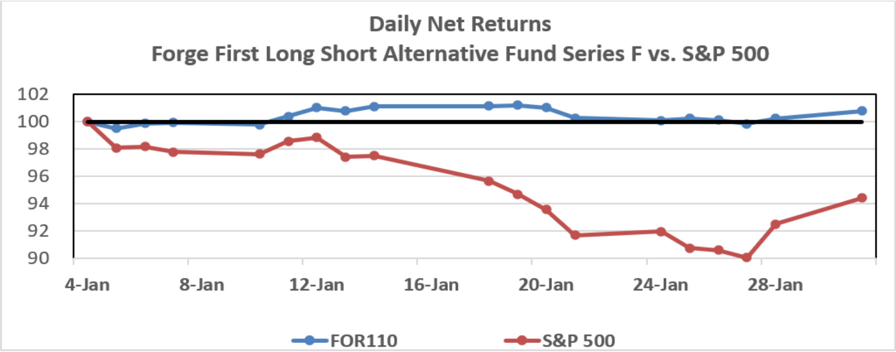
Another advantage of segregated funds is that you are permitted to name beneficiaries on the contract, who would receive funds tax free and that bypass probate. Beneficiaries receive either the guaranteed 75% to 100% of principal or the total of the investment (market value), whichever is higher.

For businesses and entrepreneurs that like the idea of creditor protection, segregated funds are ideal to help achieve this goal. Segregated funds are insurance products which makes them creditor protected, which is very intriguing.

With various client needs ranging from growing wealth, protecting beneficiaries, leaving a legacy, or protecting the family business and more; segregated funds certainly have their place to be utilized in our scope of financial tools. There is much more to share when it comes to segregated funds and we would be happy to have a discussion to see how this wonderful tool may fit in your financial plans.

Andrew McCreath - CONTINUED

Then in last month's commentary, we suggested inflation would be the key variable driving the outlook for the price of assets during 2022; an item that definitely remains the case today. Before delving into these stories and revisiting our outlook for 2022, let's recap the tumultuous month of January.



As can be seen from the daily net return graph above for January 2022, the Series F of our Forge First Long Short Alternative Fund (blue line) exhibited stability amidst the volatility in markets (red line), plus the fund generated a solid net return. We attribute this performance to our portfolio hedging and net long exposure to the Energy sector. For example, while the S&P 500 Technology index declined 6.48% during the month, our GARP versus GAAP (growth at any price) net positioning within tech enabled this sleeve of our portfolio to generate a positive return. Of course, given the pervasive losses experienced for the month, our discipline of always owning put options to protect conviction long positions plus holding index puts as market hedges, paid off handsomely. Our ongoing constructive stance towards Energy also made a positive contribution towards performance. Losing sectors included Real Estate, Industrials and positions in the Materials sector. This fund closed the month with delta-adjusted gross and net exposure of 118% and net long exposure of 45%; net having been boosted by 13% during the last week of the month.

January's volatility began early in the month, post-remarks from Fed officials indicating the FOMC may halt the reinvestment of maturing securities (QT), so as to shrink the central bank's US$8.87T balance sheet. This pronouncement sparked a substantial back-up in nominal yields (+1.50% at 12/31/21 to +1.91% at 2/4/22) driven by real yields (from -1.10% at 12/31/21 to -0.71% at 1/31/22 and -0.51% at 2/4/22) and simultaneously drove equity risk premiums higher, most notably for long duration, unprofitable equities (GAAP). Morgan Stanley estimates that between May 2022 and May 2023, G4 central banks will collectively shrink their balance sheets by US$2T, 4X the previous largest decline ever in a 12-month period.

Then, after witnessing the highest year-on-year change in headline U.S. CPI since 1982, Wall Street economists and market participants were quick to ratchet up FOMC tightening expectations for 2022 and beyond. These moves furthered the rotation from high multiple growth equities into low multiple value stocks (white line in above graph). January marked a quick repricing of policy tightening expectations for 2022 and brought with it elevated levels of equity volatility.

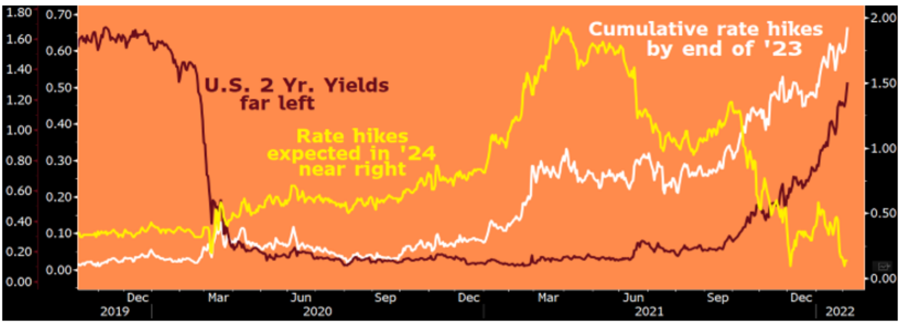
Hence, the question becomes what's the outlook for inflation, as price trends will drive the outlook for consumer health, earnings and valuations. If inflation persists and central banks hike interest rates six to eight times over the next 20 months, plus accelerate the pace of shrinkage in the size of their balance sheets, there's little question in our minds that long-only investors in stocks and bonds will be in for a very rough ride. If the reverse is true and January marked the peak in central bank hawkishness and inflation recedes, it's fair to believe equities can move higher. However, while it's easy to presume U.S. CPI is peaking right now in the 7s, what if inflation bases closer to 3.5% compared to the Fed's hoped-for number in the low 2s. Given price trends with rent, food, transportation, wages and 'everything energy', plus our view that supply chain problems will not heal until 2023, this outcome is a distinct possibility. Such a scenario would necessitate a very different Fed path than what is even priced into markets today.

Further, last week witnessed a 180-degree turn by the ECB, as President Lagarde acknowledged 'unanimous concern about inflation data'. In fact, Goldman Sachs now predicts the ECB will implement two 25-basis point rate hikes before the end of 2022! So much for the anchor on North American interest rates of negative yields in Europe! As a result of these data points, the white line (right axis) in the graph below, Eurodollar futures, discounts seven rate hikes from the Fed by year end 2023. Then, as shown by the yellow line (right axis), markets have recently priced out additional rate hikes in 2024, suggesting investors are concerned that the Fed's aggressive pace could push the U.S. economy towards a recession.

To Page 1   Disclaimer

Andrew McCreath - CONTINUED

Further, last week witnessed a 180-degree turn by the ECB, as President Lagarde acknowledged 'unanimous concern about inflation data'. In fact, Goldman Sachs now predicts the ECB will implement two 25-basis point rate hikes before the end of 2022! So much for the anchor on North American interest rates of negative yields in Europe! As a result of these data points, the white line (right axis) in the graph below, Eurodollar futures, discounts seven rate hikes from the Fed by year end 2023. Then, as shown by the yellow line (right axis), markets have recently priced out additional rate hikes in 2024, suggesting investors are concerned that the Fed's aggressive pace could push the U.S. economy towards a recession.



Source: Bloomberg

If inflation does recede and rates fall, stocks would likely rally with growth-oriented U.S. indices outperforming Canada's value-heavy TSX. Beyond rate-induced factor rotation, the question would become whether the rally is sustainable and why inflation and interest rates fell back down. If prices and rates fell because wages have lagged inflation and the consumer is out of spare change, expect a marked slowdown in growth and the potential for an abrupt shift in the Fed rate-hiking cycle. The graph below, courtesy of Cornerstone Macro, suggests that the real cash balances of lower end consumers, the quintile with the highest propensity to spend, is already back to pre-COVID-19 levels. Presumably, the Fed would act so as to attempt to fend off a recession; hardly a recipe for sustained outperformance by equities. Instead, if wage hikes remain high, the consumer may have extra spending power, but the Fed would likely be forced to act meaningfully and quickly in raising rates, again not a good scenario for stocks.

Our investment team will manage amidst this conundrum by not being dogmatically-positioned for a single inflationary outcome. Our 'buy and hold', free cash flow focused portfolios will continue to hold a balance of GARP and cyclically-oriented value stocks, complemented with the ever present hedge positions. Further, we believe that:

- Withdrawal of stimulus will push PMIs lower, creating more downside versus upside in profit estimates,
- Oil prices could exceed US$100 during 2022, hence we continue to favour energy equities,
- Stock picking, or alpha not beta, will be the key to returns during 2022, and
- 2022 will provide greater opportunity to short single stocks.

Coping With Current Financial Challenges —Continued

The rain has come down for many Canadians over the last two years and may have looked a little more like a hurricane. Researchers within our industry are stating that there's been a shift in client's attitudes and mindset, to focusing more on having control and wanting specific results.

It makes sense that there's been a subsequent shift in our role as advisors to have more conversations about current and future cash flow, in an attempt to minimize uncertainty. Similarly, there's a trend we are aligned with where we are, more than ever, stressing the importance of having an emergency fund available to manage short term, often unanticipated, needs.

As I mentioned earlier, as the pandemic continues to run its course, the impact on emergency funds and savings rates is running deeper, as people continue to experience volatility in their income and utilize savings.

The gold standard for recommended emergency savings is three-to-six months' worth of annual earnings, yet we are now at least two years into this pandemic.

In practice, emergency funds can come from a variety of sources: such as cash, redeemable GICs, TFSAs, and for some, a line of credit. For those who were able and willing to set these savings aside, they've reaped the benefits over the course of the pandemic, and many have seen them depleted. Those who weren't as prepared are facing a very different reality.

The financial implications can run deep. Meeting retirement goals has become an increasing concern for many, and the rate of savings required to reach these goals may look a little different for those who have faced setbacks in their savings. One investor sentiment study by one of the major banks revealed that nearly half of respondents indicated that the pandemic has impacted their retirement plans, based on savings rate, cash flow, unplanned expenditures, and variable income. If this is the case, it leads us towards a reset in our planning, where we need to reevaluate what needs to be done from this point on, what rate of savings is required, and what the new plan of action will be.

This is only amplified by the current inflationary environment- nearly a third of respondents indicated it is a top concern for them, or a key barrier to savings as it relates to their retirement.

Understandably, inflation, market volatility, and health issues seem to be the key concerns for most these days. We've entered a period where we need to consider all sources of income including not only employment earnings but also government benefits where applicable.

Now, more than ever, advisors have their place helping clients navigate current challenges. We are here to help our clients define and set goals, reevaluate when needed, and strategize how we can achieve them in establishing sound financial plans.

Estate Planning—Continued

Neil's father divorced Neil's mother some time ago and is not involved in the estate. Neil, however, was named the executor of his mother's estate and it is up to him to distribute the assets to his sister and himself, and make sure the estate taxes and liabilities are paid. He is working with a lawyer and an accountant as well as myself.

Neil is intelligent and independent, but he has never been tasked with organizing an estate and he is finding it to be overwhelming. The lawyers asked Neil if he would like them to wind up his mother's estate, but Neil declined due to the extra cost. Instead, he will use them to help with probate and the will but not for much else.

A source of Neil's anxiety about being executor, is that his mother did not leave things well organized. Yes, there was a will, but there are several issues Neil is contending with such as: an incorporated business, the family cottage, lack of liquid assets, and making sure his sister and him are equal beneficiaries. Neil's relationship with his sister is good, but he has mentioned that her husband "has her ear". In other words, any friction between his sister and him seems to involve Neil's brother-in-law. But when all is said and done, Neil said he will act fairly with his sister.

The will was general in that it left everything equally to Neil and Jonie. This included two homes and a cottage with a combined total of $2.47 million. Also, the registered assets such as RRSPs and TFSAs named Jonie and Neil as equal beneficiaries. Since those are registered assets, they bypass the will and have already been distributed to Neil and his sister. The combined total for the registered assets is about $559,000. There was also a $200,000 insurance policy that named Neil and his sister as equal beneficiaries. Estate liabilities include taxes and probate, mortgages, lines of credit, and credit card debt. The total liability for the estate is $560,000.

Category	Amount	Percent
Homes	$2,470,000	73.32
Non-Reg. Portfolios	$340,000	10.09
Pension Plans	$559,000	16.59
Total	$3,369,000	100.00

Figure 1 Estate Assets total $3.369 Million. Since the pension plans are registered assets, the only real liquidity in the estate is $340,000 of non-registered money.

Category	Amount	Percent
Homes	$540,000	96.00
Other	$20,000	4.00
Total	$560,000	100.00

Figure 2 Estate liabilities total $560,000 and include the capital gains on 2 properties, income from disposition of RRSPs, credit card debt, lines of credit and a mortgage.

Herein lies the big problem.

On paper, it looks like there's more than enough money in the $3.369 Million net worth. Especially when the estate liability is only $560,000. However, a significant portion of liquidity the estate had was in the registered assets and the insurance; both of which were paid directly to Neil and his sister. Having spoken with Neil many times about this, I believe his mother had the same dangerous estate planning mentality many people have: "the kids can use the insurance or houses or RRSPs to pay off any debt … they'll be fine". It's a line I've heard many times, probably from a few people reading this article!

There is nothing wrong with this statement except that in Neil's case, there is a brother-in-law who doesn't think that Jonie should have to use her RRSP inheritance or insurance money to pay for the estate debt. And since those assets bypass the will, Neil can neither access Jonie's inheritance nor use it for the benefit of the estate. Moreover, the RRSPs are considered income to the estate thus increasing the estate's tax bill. That leaves the $340,000 of non-registered money and the properties as the only assets able to pay down the estate liability.

The $340,000 of non-registered money can bring the estate liability down to $220,000 but there are still funeral expenses, lawyer and accountant fees, and various 'after-the-fact' expenses that will have to be paid when everything is said and done. That leaves us with the 3 properties and another big problem: Neil wants the cottage.

To Page 1 Disclaimer Continue Reading

Estate Planning—Continued

Jonie has no real attachment to the family cottage but Neil plans on “dying there”. He’ll do anything to keep that cottage and has no problem paying his sister for her half. Neil has a number in his head that he is willing to pay Jonie; however, Jonie’s husband thinks they can get more if they list the cottage. Unfortunately, there really isn’t much Neil can do other than convince his sister to sell him her share at a reasonable price. Neil’s mom should have had a conversation with her two kids about the cottage and made sure there was a plan in place that would give Neil the cottage without Jonie sacrificing her share of the inheritance.

Now let’s talk about those other two properties: one of which is Neil’s mom’s house and the other of which is the house Neil was living in. Neil will have to sell the one he was living in first. It will sell quickly and he has no attachment to the house. The sale of the house will provide the estate with an additional $1 million of liquidity after paying the remaining mortgage. The $1 million can then be used to pay down the remaining $220,000 of estate debt, leaving Neil and his sister with $390,000 each. I should note that the capital gains tax from this sale of this property was already included in the total estate liability. The other property will use the principal residence exemption since it was his Mom’s home. (The capital gain on the cottage was also included in the total estate liability).

Most likely Neil will sell his mother’s home as well which will generate an additional $1.1 million of liquidity for the estate and $550,000 for both Neil and his sister. However, Neil is currently living in his mother’s home, so unless he tries to find somewhere else to live, his sister may raise some concerns about this later. As for the business, Neil plans on selling it within the next few weeks. It will probably sell for a modest $30,000, which is a drop in the bucket and additional liquidity for the estate.

There are many issues still not addressed here, but the bigger theme to take away is the following: the estate lacked liquidity, and this could create friction between Neil and his sister Jonie. A proper estate plan would have projected the estate liability, identified a gap in liquidity, and offered a solution of which there are many. I suggest that parents and their children start a conversation about how an estate will be handled. Ask if anyone has a special attachment to something like a musical instrument, a cottage, a car, or a piece of jewellery. You’ll be surprised by what comes out of these conversations and you may find you were very wrong in some of your assumptions. One thing is for sure, I can promise that you’ll be glad you had it.

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RETURN TO PAGE 1