Kleinburg PRIVATE WEALTH

Carte WEALTH MANAGEMENT INC.

KPW LIFE PLAN—IMAGINE YOUR FUTURE

VOL. 11, ISSUE 3 MARCH 2022

“Investing should be more like watching paint dry or watching grass grow. If you want excitement, take $800 and go to Las Vegas.” - **Paul Samuelson**

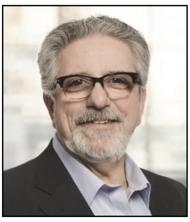
Sergio Simone
EDITORIAL COMMENT

Kristina De Souza, CFP
REVISITING THE VALUE OF RESPs

Roberta Di Petta
ANNUITIES AND RETIREMENT

Ryan Simone, CFP, CLU
THE LEADING ECONOMIC INDEX (LEI)

EDITORIAL COMMENT



Sergio Simone

Less than six months ago I would have given less than a 10 percent chance that we would see a recession over the next year. My opinion was based on the fact that there was only one leading indicator pointing to a weakening economy.

A lot has happened over the last month. Of course, me along with the rest of the investment world is trying to figure out the impact Russia’s invasion of Ukraine will have on us. Aside from the devastating humanitarian crisis, there is a lot of uncertainty on the toll a prolonged war could have on us and our investment portfolios.

REVISITING THE VALUE OF RESPs

Kristina De Souza, CFP

Though they have evolved greatly since inception, it has been nearly 50 years since our federal government opted to support and encourage Canadians to save for their children’s post-secondary education by developing registered education savings plans (RESPs). Although not very popular at the outset, over time softening the rules and the introduction of government grants has given RESPs a major boost. I can personally vouch for the value of these plans and am admittedly a huge proponent of them, as a parent who anticipates the cost of 3 post-secondary educations.

ANNUITIES AND RETIREMENT

Roberta Di Petta

The definition of an annuity is a fixed sum of money paid to someone each year, typically for the rest of their life. Annuities are financial products that guarantee regular income, and by nature, are ideal for retirement income. With that said, annuities are not generally at the top of our list when planning for retirement. We tend to overlook the benefits they can provide. Generally, it would be government pensions like CPP, OAS and other retirement savings vehicles such as RRSPs, TFSAs and well-funded pension plans from employers that we consider for retirement.

THE LEADING ECONOMIC INDEX (LEI)

Ryan Simone,
CFP, CLU, CHS

There are many “indicators” we can use to gauge the degree of possibility that a recession is on the horizon such as: an inverted yield curve, an ISM Manufacturing PMI below 45, positive trending inflation, housings start declines, and a weaking labour market. Each on there own tells us very little but together they can paint a better picture. One index that ties some of these components together in a sort of “summary” of economic conditions is the Leading Economic Index.

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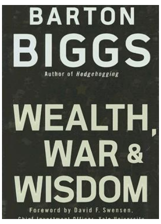
BOOK OF THE MONTH

WEALTH, WAR & WISDOM

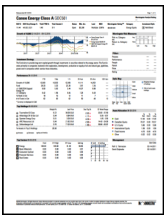
- by Barton Biggs



Biggs skillfully discusses the performance of equities in both victorious and defeated countries, examines how individuals preserved their wealth despite the ongoing battles, and explores whether or not public equities were able to increase in value and serve as a wealth preserver. Biggs also looks at how other assets, including real estate and gold, fared during this dynamic and devastating period, and offers valuable insights on preserving one's wealth for future generations.

FUND OF THE MONTH

FIDELITY DIVIDEND FUND

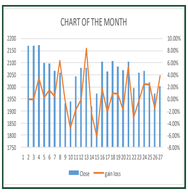


This fund is focused on high-quality companies that the portfolio manager believes have the potential to maintain and grow their dividends over time.

The fund is also managed with a focus on managing market volatility.

CHART OF THE MONTH

Remember That Markets Tend To Stabilize Rather Quickly



Many of the strongest returns in the markets occur in the period immediately following a sharp decline. Those who exit the markets, even for a short while, risk missing great opportunities when the markets recover.

BLOG OF THE MONTH

IMF EXECUTIVE BOARD APPROVES US$1.4 BILLION IN EMERGENCY FINANCING SUPPORT FOR UKRAINE

The Executive Board of the International Monetary Fund (IMF) today approved a disbursement of US$1.4 billion (SDR 1,005.9 million) under the Rapid Financing Instrument (RFI) to help meet urgent financing needs and mitigate the economic impact of the war.

The war in Ukraine is resulting in tragic loss of life and human suffering. While the outlook is subject to extraordinary uncertainty, the economic consequences are already very serious, with refugee flows of over 2 million persons in just 13 days and large-scale destruction of key infrastructure in Ukraine. This disbursement under the RFI, equivalent to 50 percent of Ukraine's quota in the IMF, will help meet urgent balance of payment needs arising from the impacts of the ongoing war and will provide critical support in the short term while playing a catalytic role for financing from other partners.

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PRIVATE WEALTH

INFORMATION AND SOLUTIONS FOR HIGH NET WORTH INVESTORS

UnionBank

LIFE INSURANCE AS AN ASSET

For high-net-worth families and individuals, life insurance can provide benefits that go beyond income replacement to support beneficiaries upon the death of the insured. As part of a comprehensive wealth management plan, life insurance can provide liquidity to cover estate taxes, equalize inheritances among beneficiaries, maximize wealth, secure a legacy, and allow beneficiaries to retain ownership of important assets, such as the family businesses or real estate. The following looks at life insurance and how some life products can provide solutions for things such as retirement planning, funding long-term care needs, and wealth accumulation and transfer.

Canadian Family Office

HIGH-NET-WORTH INVESTORS' OUT-LOOK ON INFLATION FOR 2022

As inflation hovers over the economy, high-net-worth investors and their advisors are looking at what strategies will best keep their portfolios safe from its ravages.

Consumer price indexes in North America and elsewhere have been rising throughout the year, and while economists and analysts still describe inflation as "transitory," fear that inflation and rising interest rates will erode asset values and increase borrowing costs is high among wealthy investors, according to a CNBC survey of millionaire investors.

Wharton University of Pennsylvania

DOES WEALTH CHANGE THE WAY YOU THINK?

"Let me tell you about the very rich. They are different from you and me," wrote F. Scott Fitzgerald. ("Yes," commented his friend Ernest Hemingway, "they have more money.") Fitzgerald's point was that great wealth tends to give rich people distinctive attitudes toward life that people with considerably less money don't share.

To advise more effectively, financial advisors to the rich seek to develop a profound understanding of their clients' attitudes toward money and life. But there is so much more than the amount of a client's assets that can affect his or her attitudes, goals, and tolerance for risk.

RBC Wealth Management

THE NEW FACE OF WEALTH AND LEGACY: HOW WOMEN ARE REDEFINING WEALTH, GIVING AND LEGACY PLANNING

The rising economic clout of women is perhaps one of the most significant economic shifts of recent decades. Not only are women generating and managing an increasing amount of wealth, they are also directing the economy itself—heading up major corporations and pivotal economic players like the International Monetary Fund and (until recently) the U.S. Federal Reserve.

Furthermore, throughout the global economy, women are starting and running new businesses at a rapid rate. In the U.S. alone, women were majority owners of 9.9 million U.S. businesses of all sizes with more than 8.4 million employees

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CORPORATE CULTURE

CEOWORLD magazine

TOMORROW THE WORLD WILL NOT RETURN TO 'NORMAL'

We are often all slow to accept that which we don't like the look of. We tend to believe what we want to believe – that which suits us to believe even when a different reality stares us starkly in the face.

My nephew is currently stuck in Western Ukraine and keeps sending messages that it's all going to be OK and the whole thing is bound to fizzle out. Just like, when we were urging him to leave a week or so before the invasion, he responded with a newspaper report that Putin claimed he was withdrawing his forces from the Ukraine border. "See, it's official" he wrote. It's what psychologists have long called confirmation bias. None of us is immune.

goodlawyer The help you need.

ARTICLES OF INCORPORATION 101

Articles of Incorporation are part of a legal document that is submitted to either the provincial, territorial, or federal government which registers a business as a corporation within Canada. Having this type of business structure separates the business from its owners, creating a separate entity. This is important particularly if the business is being subject to any legal action or debt recovery. Most provinces in Canada require directors to be Canadian residents, which are referred to as Canadian-controlled private corporations (CCPC).

McKinsey & Company

COVID-19: IMPLICATIONS FOR BUSINESS

Just over two years ago, the World Health Organization declared a pandemic. Since then, one in every 1,300 people alive in 2019 has died from infection with SARS-CoV-2. Two years on, it is easy to forget how remarkable the development of COVID-19 vaccines was: moving in just 326 days from a genomic sequence to the authorization of a vaccine shattered all previous records. For this anniversary, we reflected on ten core lessons of the pandemic (see sidebar), some of which exposed fault lines in our society and others that demonstrated amazing capabilities. A separate initiative compiled two years' worth of research on pandemic impacts, while a third article examined how the pandemic set input prices rising and what to do about it.

PeopleKeep

CAN I PAIR EMPLOYER BENEFITS WITH PREMIUM TAX CREDITS?

Many employers are transitioning away from traditional group health insurance by offering more flexible health benefits such as a health reimbursement arrangement (HRA) or health stipend. At the same time, many employees are taking advantage of health insurance subsidies, such as premium tax credits.

Employees often ask, "Will I be penalized for getting a subsidy when my employer offers benefits?" As an employer, you'll need to know which health benefits options you can offer your employees without risking their health insurance subsidies.

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FUND MANAGER COMMENTARY

KEVIN MCCREADY
AGF MANAGEMENT

SADIQ S. ADATIA
BMO GLOBAL ASSET MANAGEMENT

ROHAN THIRU
CANOE FINANCIAL

BRENT JOYCE
MACKENZIE INVESTMENTS

Kevin McCreadie, CEO and Chief Investment Officer

AGF Management Ltd.

War And The Fear Of Recession

Recession seems like a low-probability event now that the latest wave of pandemic related economic restrictions are being lifted in more countries around the world.

Continue Reading

Sadiq S. Adatia, Chief Investment Officer

BMO Global Asset Management

Fed Rate Hikes, Russian Debt, Reopening

It was no surprise that last week the U.S. Federal Reserve raised its key interest rate by 25 basis points. It also wasn't surprising that the rate hike was only 25 basis points rather than 50 bps. Before the meeting, the CME FedWatch Tool had indicated about an 83% chance of six rate hikes this year, and the Fed's actions were consistent with that schedule.

Continue Reading

Rohan Thiru, Portfolio Manager

Canoe Financial

Bonds For Insurance In Times Of Market Fear

Bonds provide insurance against a drawdown in equities when real fears surface in the market (e.g. potential recession or a financial shock to the economy). With cracks appearing in risk assets, now is the time to add insurance to your clients' portfolio, and the insurance has only gotten cheaper

Continue Reading

Brent Joyce, Investment Strategist

Mackenzie Investments

Seeking Clarity In The Fog Of War

Uncertainty is the name of the game; risk premiums are rising – equity markets are see-sawing on the volatile situation. Bond yields are stable, providing some risk protection to balanced investors. And other safe-haven assets like the U.S. dollar and gold are also rallying.

Outside of direct damage to the Ukrainian and Russian economies, the impact to the global economy runs through the path of the extent of sanctions and supply chain disruptions and potential damage to consumer and business sentiment (especially in Europe).

Continue Reading

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LINKS

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Shadow Budget Report Calls On Feds To Slash Spending, Incentivize Growth	Europe's Central Bank To Speed Up End To Economic Stimulus	U.S. Inflation Jumps to 40-Year High
Goldman Sachs Has Cut Its US 2022 GDP Forecast Again And Warned Of A Sharp Slowdown In Growth	Canada's Jobless Rate Plunges To Pre-pandemic Lows, Proving The COVID Recession Is Over	Inheriting Bitcoin Is Harder Than It Sounds
Million-Dollar U.S. Homes Nearly Double From Pre-Pandemic Levels	Plenty Of TFSA Room Going Unused	Goldman Sachs Warns Russia's War On Ukraine Could Plunge U.S. And Europe Into Recession

ICSTD

HOW TO PAY TAX OWING TO REVENUE CANADA?

Choosing an online payment method is possible using a Canadian credit or debit card. Paying online can be done at my Payment service. Third-party service providers can handle payments through third-party methods, including credit cards, transfers, and PayPal.

WORLD BANK GROUP

DEVELOPING ECONOMIES MUST ACT NOW TO DAMPEN THE SHOCKS FROM THE UKRAINE CONFLICT

The war in Ukraine could not have come at a worse time for the global economy—when the recovery from the pandemic-induced contraction had begun to falter, inflation was surging, central banks in the world's largest economies were gearing up to hike interest rates, and financial markets were gyrating over a formidable constellation of uncertainties.

The war has aggravated those uncertainties in ways that will reverberate across the world, harming the most vulnerable people in the most fragile places.

VIDEO AND PODCAST LINKS

Money Sent To Ukraine To Keep The Government Functioning, Says IMF's Georgieva	Biden's Crypto Order Could End Fragmented U.S. Regulations, Says Ripple CEO	Getting Inflation Back To Target

FINANCIAL CALCULATORS

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

EDITORIAL COMMENT - CONTINUED

This conflict has implications for Europe and for commodity prices that may be more serious than any we have seen in a very long time.

I have no intention of trying to minimize the gravity of the crisis or its ghastly human toll, but there is a risk that investors are facing that may be more impactful over the long-term. We are on the cusp of the most significant shift in monetary policy since the Global Financial Crisis in 2008-9.

On March 16, the U.S. Federal Reserve announced, as expected, the first in an anticipated series of interest rate hikes. The 25-basis point increase had been expected and the markets reacted very favorably to it with several indices posting above 2% gains on the news. There is a consensus among analysts that we could see another seven rate hikes over the next year. This is important for two reasons: First it will be the first time the Fed has raised rates since 2018 and secondly, the Fed is raising rates as a response to persistently above-trend inflation.

Rate increases on there own can be a nerve-wracking situation for investors, but rate increases are only one part of the equation. The second part of the equation to fight inflation may be less familiar but more dire: **QUANTITATIVE TIGHTENING**, or QT.

So far, the Fed has not initiated QT, and up until now they are still actively buying bonds, however the Fed has strongly hinted their intentions that give me leeway to reasonably begin to formulate some scenarios about QT, how it will be rolled out and the likely impact on capital markets and the economy which will directly impact our investment portfolios. When the Fed does pull the trigger on QT, it has become clear to me that they along with other central banks employing QT policies will be entering largely unchartered territory – and taking us along for the ride.

A little back story before I continue.

When the pandemic first hit the global economy, the Fed began implementing the same Quantitative Easing (QT) strategy it had employed during the Great Financial Crisis. It began a steady lowering of interest rates until they bottomed out at zero percent, then it began buying up bonds as a means of injecting liquidity into the economy to keep yields low. I believe economists will debate this strategy for decades to come. Some will argue that it was a necessary evil during a time of great urgency while others will point to the inflated Fed balance sheet and argue that the additional US$5 trillion was extremely excessive and was more political than economical, which can have unknown ramifications for many years.

Quantitative Tightening is the exact reverse of **Quantitative Easing**. The Fed's objective will be to shrink its balance sheet by paring down its bond holdings, effectively reducing the money supply and attempting to put upward pressure on interest rates. As I write this, the Fed has held off on beginning this process, but they have strongly signaled that they intend to implement QT once the interest rate hikes are in full swing. Fed officials have indicated they would prefer to keep the two levers separate. If I had to venture a guess, I would say that we will experience a round of rate increases into the summer, at which point QT will kick in.

At that point it will be anyone's guess on what the effect the tightening policy might have. The world today looks nothing like what it did six months ago and I expect it will look a lot different six months from now. The best we can do is be prepared by having a well-diversified investment portfolio.

Part of the reason I am finding it difficult to assess the effects of QT is that the Fed has options in how they implement it and each of these options can have varying effects. For example, the Central Banks can use one of two main methods to conduct QT. The first is passive. The bank simply lets bonds mature and elects to refrain from reinvesting the proceeds by buying more bonds. This will effectively shrink the balance sheet. The second approach is active. The bank forces the reduction of its balance sheet by selling securities outright. The Fed has signaled that they will likely take the more benign or passive approach but have not officially ruled out Active QT.

Prior to the pandemic, the Fed's balance sheet sat at a hefty US$4 trillion which ballooned to US$9 trillion two years later. The big question is how far is the Fed planning to trim its balance sheet? I doubt they will take it all the way back down to pre-pandemic levels but halfway back is very plausible. They could accomplish this in a relatively painless manner by reducing its holdings by US$100 billion per month over the next two years. Over the next year there is over US$1 trillion of T-bills and short-term bonds naturally maturing, so even a passive QT operation should reduce the balance sheet significantly over the next year.

The fiscal environment has shifted in the U.S. The economy has become the number one issue and people are concerned about the national debt. In hindsight it may have been fortunate that President Joe Biden's multitrillion-dollar Build Back Better spending bill died in Congress, and any replacement bill will likely be a pale shadow of the original. As a result, the fiscal deficit is guaranteed to be less than it appeared to be a year ago.

EDITORIAL COMMENT - CONTINUED

This translates into a lower volume of government bond issuance that will likely create a greater market capacity to absorb the impact of QT. There is even a greater probability that it will have weakened some of QT's potential negative impact on the economy.

There are several other unknowns like 'which part of the balance sheet the Fed will target'; or the repercussions of other balance sheet effects like the liability side of the balance sheet. Basic bookkeeping tells us that the assets and liabilities must match. Without boring you with details, there are factors in play here that could affect market liquidity and capital market prices.

If you have read my previous editorials, you are aware of the emphasis I put on the relationship with the yield curve and recession. Hopefully the Fed will want to avoid exacerbating any scenario that creates a greater flattening of the yield curve that may be a signal of over-tightening which is a fairly reliable leading indicator pointing towards a recession.

The big question that needs to be addressed is "what is the possible impact on my investment portfolio?"

The good news is that it may not be as dire as some expect, at least in the fixed income markets. Bond yields are likely to rise a little, yet there is every reason to believe that QT may not result in the huge bond selloff many are anticipating. The reason for this is that QT withdraws liquidity which acts as a brake on the economy. The last time the Fed employed QT was in 2018-19. Yields did rise during the early phase but then fell as investors priced in slowing economic growth. This may not be a perfect historical precedent, but something similar could easily happen this time around.

Where equity markets are concerned, QT could present a serious headwind, as less liquidity and slower economic growth could translate into less support for risk assets resulting in slower earnings growth, and earnings do drive markets. A typical effect from monetary tightening is a deceleration of economic activity as investors move risk assets into more high-quality defensive sectors and away from cyclical sectors. The irony here is that any economic slowdown may lead to a return to growth equities as opposed to the value stocks that have been favored more recently.

Something to note here is that equities have already priced in the anticipation of tighter monetary policy. Once the slowdown has been sufficiently reflected in stock prices, a buying opportunity for equities should present itself when tightening begins to relax.

This is the type of economy where the Fed earns its keep. Any adverse impacts on the market may be offset by the Fed's ability to thread the needle between too much tightening and not enough. If it can engineer the sought after "Soft Landing" for the economy, perhaps by steepening the curve through active QT thereby curtailing the need to raise rates as often or as much, then perhaps this is achievable. However, history indicates that this is the low probability result as the large majority of tightening cycles have eventually resulted in hard rather than soft landings.

As the Fed's strategy becomes more obvious in regards to an active or passive approach, we will prepare to navigate client portfolios through a new era of monetary policy.

CHART OF THE MONTH - CONTINUED

Markets Eventually Recover Despite Volatility

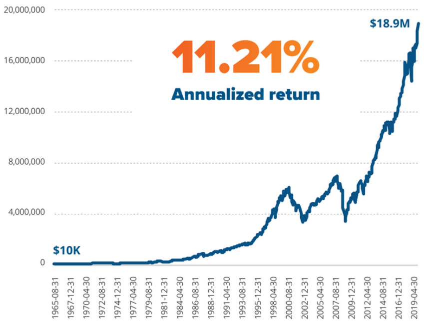
S&P/TSX Composite Total Return Index

	12-month return	12-month return following negative return	5-year return following negative return	
			(absolute)	(annualized)
December 1957	-21%	31%	72%	11%
May 1970	-24%	23%	49%	8%
September 1974	-31%	23%	168%	22%
June 1982	-39%	87%	227%	27%
August 2001	-33%	-9%	79%	12%
December 2008	-33%	35%	76%	12%
March 2020	-14%	?	?	?

Source: Mackenzie portfolio analytics

Staying the course is of the utmost importance during periods of volatility as it has historically enabled investors to fully recover from these periods and achieve their long-term investment goals.

Growth of a $10,000 investment, 1950-2019



Crisis	Market low	1 yr later
Korean war	July 13, 1950	28.8%
Cuban missile crisis	September 23, 1962	33.8%
JFK assassination	November 23, 1963	25.0%
1969-70 Market break	May 26, 1970	43.6%
1973-74 Market break	June 12, 1974	42.2%
1979-80 Oil crisis	March 27, 1980	27.9%
1987 Stock market crash	October 19, 1987	22.9%
Desert storm	October 11, 1990	21.1%
Soviet coup d'état attempt	August 19, 1991	11.1%
Asian financial crisis	April 2, 1997	49.3%
Dot-com bubble crash /Sept 11 / Enron	October 9, 2002	33.7%
Invasion of Iraq	March 11, 2003	38.2%
North Korean missile test	July 17, 2006	25.5%
Subprime mortgage crisis	March 9, 2009	68.6%
Average appreciation		**33.7%**

Source: Morningstar Direct / Bloomberg. Snapshots in time of significant negative impact international events from 1950 to March 2009, and the subsequent change in market value from the S&P 500.

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Annuities and Retirement - CONTINUED

When it comes to annuities, we need to understand they are not going to benefit everyone equally. We must consider not only the financial state of the client but also their health. For example, when clients have a lower life expectancy, annuities are not the best solution. The same would be true for a client with inadequate personal funds.

On the other side of this coin would be someone who is part of a well-funded pension plan or with a surplus of assets, again, not the best fit. But somewhere in between these types of individuals lies someone who is suited to an annuity. This type of individual may have an annual cost of living that is more than their current lifetime benefit income, as the biggest benefit of a life annuity is longevity.

Annuities should be chosen based on variables such as the person's age and the benefits of risk pooling. Risk pooling is something that is used for annuities as well as house insurance as an example.

With annuities, the premiums paid by individuals that die earlier help finance the annuities for those that live longer, well into old age. Subsequently the benefits of earlier deaths are known as "mortality credits". House insurance is the same; if your home burns down you would benefit from all the premiums paid by the other homes that did not get destroyed.

An employer benefit pension plan and an annuity are similar in that the benefit that will be received is established and guaranteed for life or a predetermined time horizon.

Annuities can be purchased using RRSPs, RRIFs and non-registered accounts. Your financial advisor that is licensed to sell life insurance can help you purchase the right annuity that fits your lifestyle. In the right scenarios, a portfolio can be enhanced when life annuities are utilized as a way of reducing risk, especially when longevity comes into play. Purchases can be done in one lump sum or in multiple payments. The income accumulated is from interest, return of capital and transfer of capital.

There are several different types of annuities, for example, Life Annuity, Term-Certain annuity, Variable annuity and a few others. The most common for Canadians are Life annuities and Term-certain annuities.

Life annuities are pretty much what they sound like; they provide you with a guaranteed lifetime income. There would be no risk of outliving your income. If your income outlasts you (you pass) then the survivor option, if you selected at the time of purchase, will transfer payments to your spouse or partner. Another option would be to provide the money to your beneficiary or estate upon death.

Term-certain annuities guarantee income for a predetermined amount of time, usually 10 or 20 years. If you pass away before this time, then your beneficiary or estate will receive any remaining funds. On the other hand, you could live longer than the contract and the income would be depleted.

When purchasing an annuity, costs will vary depending on variables such as age, sex and the annuity amount. Monthly incomes will vary depending on the provider of the annuity. Therefore, it is highly advisable that you work with a knowledgeable advisor. Our life insurance advisors have access to multiple insurance companies. This allows us to look at different options to service and guide you to create the right fit for you and your family. Annuities can be a major piece of your retirement planning puzzle. They can make your lifestyle manageable knowing what your monthly or even annual income will be.

The reliable, continuous income can be reassuring and comforting. I would be happy to go over all of the factors to consider when purchasing annuities, and put the perfect plan together for you and your loved ones, so please feel free to contact me to discuss further.

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Revisiting the Value of RESPs —Continued

Though I will try and maintain an unbiased approach, the fact of the matter is that I struggle to think of any other investment vehicle where you are guaranteed a 20% return (up to certain limits of course). I also proudly hold the informal title of **'RESP Specialist'** at KPW Financial, so I'd like to take some time to go over what RESPs have to offer.

Despite their long-term existence, recent studies suggest that the majority of parents still need assistance understanding RESPs. One study in particular last year found that 4 out of 5 Canadian parents reported not fully understanding the benefits of RESPs. Additionally, while nearly all Canadians (92%) are aware of RESPs, only 17% reported knowledge about the contribution limits and benefits they offer.

Among those aware of RESPs, less than half (49%) currently contribute or have contributed to an RESP. It's interesting that some Canadians use other methods to save for education, such as in-trust or bank accounts and TFSAs, given that these types of accounts don't offer any form of grant. Recent surveys have also revealed that the pandemic has had a negative impact on parent's ability to save for their children's education. The takeaway here is that many Canadian parents require expert guidance and advice in order to make the most of RESPs. Given the increasing cost of post-secondary education, RESPs are arguably the most effective way to save for education and help avoid excessive student debt down the road.

Parent's concerns around saving for education can be eased by showing them how flexible, versatile, and beneficial RESPs are. RESPs allow you to decide the amount, timing, and investment selection of contributions, within the lifetime contribution limit of $50,000 per beneficiary.

Each RESP must have a designated beneficiary, who can be your child, your grandchild or the child of a relative or friend. The beneficiary must be a Canadian resident, have a social insurance number and be pursuing post-secondary education at a vocational school, CEGEP, or university.

As a reminder, there are two types of RESPs. A family RESP is a good option for households with more than one child because the money can be transferred from one beneficiary to another. However, this is the only plan that requires the contributor to be a blood relative (parent or grandparent) of the beneficiary or their adoptive parent.

An individual RESP, as its name suggests, is for a single beneficiary, and is ideal for important figures in a child's life (i.e. godparents) since it does not require a direct relationship with the beneficiary. Employment and Social Development Canada (ESDC) provides an incentive for parents, family and friends to save for a child's post-secondary education by paying a grant based on the amount contributed to an RESP for the child. The Canada education savings grant (CESG) money will be deposited directly into the child's RESP. No matter what your family income is, each beneficiary receives a CESG of 20% on the first $2,500 of annual contributions to their RESP, up to an annual maximum of $500. The lifetime limit is $7,200 per beneficiary.

Subscribers with limited financial means may be eligible for an additional CESG, which represents a supplement of 10% to 20% per year (depending on family income). You can also claim unused grant room and contribute more for a given year, allowing you to receive up to $1,000 in CESG per year. Every child under the age of 18 who is a Canadian resident will accumulate $500 in unused CESG contribution room. Then there is the Canada Learning Bond; which contributes $500 in the first year of an RESP and $100 annually from there that the family meets the income criteria. The maximum lifetime amount awarded is $2,000 per beneficiary.

Once your child is enrolled in a post-secondary program, they can access the money from their RESP. To start the process, you must provide an official proof of enrollment to begin making withdrawals. The money will be paid out in the form of an Education Assistance Payment (EAP), made up of grant money and investment income (not invested capital) and is taxed at the student's (lower) tax rate. The amount will, of course, depend on the funds you have accumulated in the RESP.

As a subscriber, you may choose to increase the EAP by withdrawing a portion of your contributions as well. Remember, however, that capital can continue to generate returns, even in a period of disbursement. Thus, it's ideal to withdraw grant money first, since any grant money remaining after the beneficiary has completed their studies will have to be reimbursed to the government, unless it can be transferred to a sibling under a family plan.

Even if a beneficiary does not pursue post-secondary education or use the funds, there are other options for the funds. For example, when certain conditions are met such as sufficient RRSP contribution room, you can withdraw your contributions tax-free or transfer up to $50,000 in accumulated earnings to an RRSP. As mentioned above, money paid out as an EAP is taxable to the beneficiary, whereas the capital you invested is not taxable upon withdrawal.

Revisiting the Value of RESPs —Continued

It’s important to work with an advisor who can plan from a tax perspective how to withdraw RESP funds without triggering undue income tax if the student is working part-time as well, for example. An important piece of information is that an RESP will not affect your child’s eligibility for student loans and bursaries.

The key to RESPs is the simplified manner in which you can start saving for your child's education early and contribute regularly. In doing so, you can rest assured that your child will have the funds they need, when they need them most.lans.

The Leading Economic Index (LEI)—Continued

Although not a direct indicator of a recession itself, it is one of the more reliable indicators that a change in the business cycle is occurring. The index is created and maintained by a non-governmental organization called The Conference Board.

The business cycle is a series of peaks and troughs and when we move from a peak to a trough, this pretty much results in a recession. At this point, I'm going to diverge from the main topic for a moment and remind my readers of a single truth: recessions happen and if you are invested in the stock market you will most certainly take part in a recession. Selling during a recession is the single most damaging thing you can do to a diversified portfolio. This is backed up with countless data dating back over a hundred years. The best thing you can do is add more money to your portfolio or wait out the recession and recover. Recovery takes on average about 24 months; recovery is shortened if you add more money into the portfolio.

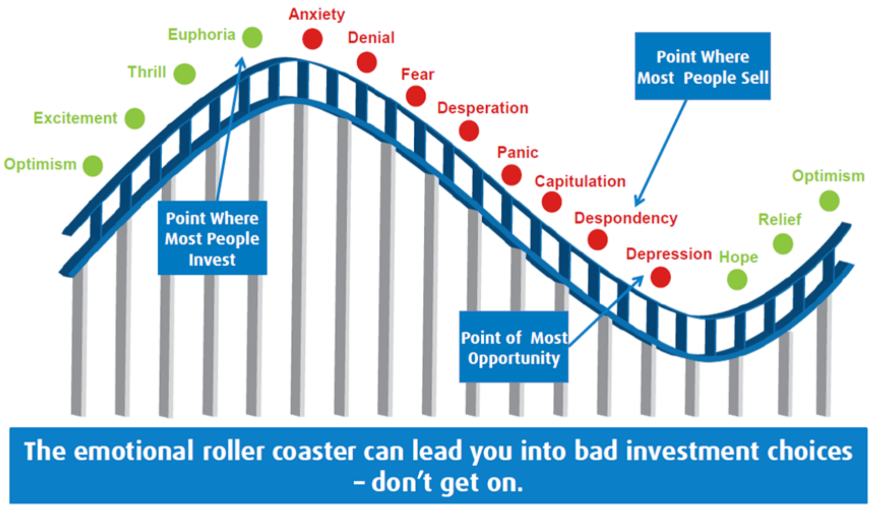
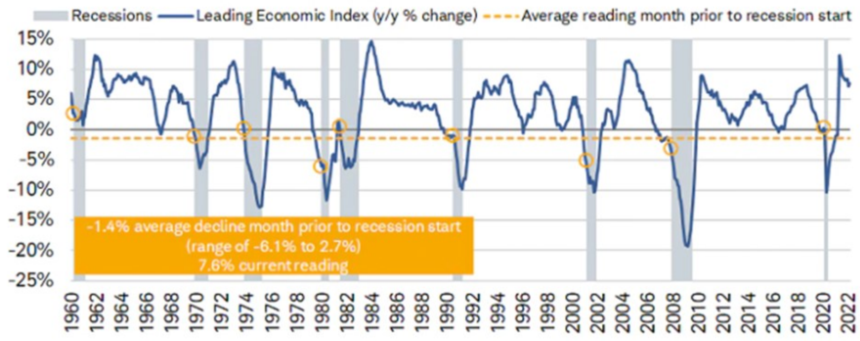


Figure 1 The business cycle as expressed though investor emotion. Euphoria at the peak and hopelessness at the trough. Provided by BMO Asset Management.

Now, back to the main topic.

The Conference Board's Leading Economic Index is one of the most reliable gauges for a turning point in the business cycle. This is because the index's movements tend to signal when economic activity has reached a peak, a trough, or a slowdown. You can see the actual business cycle in the chart below. The highest points are where we've reached a peak in the cycle, and the lowest points are where we've found the trough.

Figure 2 Leading Economic Index chart



Source: Charles Schwab, Bloomberg, The Conference Board, as of 2/28/2022.

In the chart above, we can see that previous recessions, which are marked in the grey area, tend to occur when the index is trending downward towards 0% or less. The index currently sits at 7.6% in February. This is considered a strong position relative to history, meaning there is some runway to go before a recession signal is lit. But the true "tell" signal in this index is the rate of change in the data. When the rate of change month-over-month approaches -1.4%, this is a strong indication that the cycle may be in a state of change.

The latest numbers coming out of the U.S. are positive. On March 18, 2022, The Conference Board released the latest change in the LEI for the U.S. stating an increase of 0.3% in February. Since this number does not yet reflect the Russian-Ukraine War, it will be interesting to see what change occurred in March. The latest numbers can be found on The Conference Board's website in their Press Release page: Press Releases - United States (conference-board.org)

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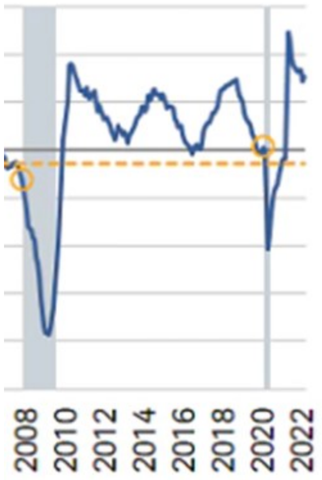
The Leading Economic Index (LEI)—Continued

Although they release LEI numbers for a range of countries, you'll want to pay closest attention to the U.S. numbers. If you see the number -1.4% or lower, then it is likely the business cycle is undergoing a change. And remember, this isn't a gauge of impending doom, this is a gauge that signals changes from peak to trough in a business cycle.

One thing to note is that the downward movement from peak to trough does not suggest that you should sell out of the markets. For example, if you were invested from 2012 to 2019, you took part in one of the longest bull markets in history and probably made a bunch of money. But if you look at the index chart again, there are some points where it looks like things are about to go south. For example, going into 2012 looked to be a harrowing experience.



The section of the chart I've isolated is a perfect example of why we have to be careful relying on one indicator. With 2008 still fresh in our minds, going into 2012 would have felt like we were about to go into another deep recession. But it ended up being quite the opposite as 2012 was a fantastic year to be invested in U.S. equities. This little snippet actually shows a few points where we were heading for a trough, only to be brought back out again. I remember the timing on those dips – 2015 & 2018. Markets were volatile for whatever geopolitical or economic event was occurring at the time and we were fielding the infamous "should I move to cash" phone calls. Imagine if you sold during each of those periods? No doubt you would be cursing the stock market and wondering how anyone could make money. You'd probably be looking elsewhere to make a quick buck and recover equity losses. Bitcoin anyone?

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