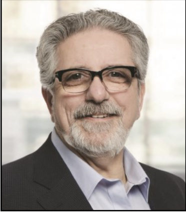
Kleinburg PRIVATE WEALTH
Carte WEALTH MANAGEMENT INC.

KPW LIFE PLAN—IMAGINE YOUR FUTURE

VOL. 11, ISSUE 4 APRIL 2022

***"In the midst of chaos, there is also opportunity."* - Sun Tzu**



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EDITORIAL COMMENT

Sergio Simone

It is no secret among my colleagues and clients that I am a big proponent of fundamental analysis as a guide towards portfolio recommendations and allocations. Yet these same people have heard me often repeat the phrase, "but what if I'm wrong?" One lesson I learned early on is that "nothing works forever". Sometimes you have to think beyond the logical. The investment world is not always black and white.

Amos Tversky was an Israeli cognitive and mathematical psychologist who once stated, "Study after study indicates, however, that people judgments are often erroneous – and in a very predictable way. People are generally overconfident.

FUNDAMENTALS OF RETIREMENT PLANNING

Kristina De Souza, CFP

The realm of financial planning is vast and may be overwhelming to some. We at KPW Financial prioritize educating our clients and support the notion that a sound understanding of basic financial concepts can go a long way. While Canadian's financial knowledge is reportedly high when tested, confidence in skills is still lacking for many. In my experience with financial planning, and specifically retirement planning, there are some recurring questions and concerns that seem to be at the forefront for many.

ONE IN FOUR WILL HAVE TO DEAL WITH A DISABILITY BEFORE REACHING RETIREMENT

Roberta Di Petta

The purpose of life insurance and a good agent is to put in place a plan knowing that when you pass away the family or beneficiary will receive a certain amount of financial security that will be sufficient to cover debt, education, mortgages, rent and replace your income for all the responsibilities left behind for years to come. If you and your agent have done this, congratulations, you have taken care of your loved ones in the event of your absence.

CASE STUDY - TAX DEDUCTIONS FROM LINES OF CREDIT (LOC)

Ryan Simone,
CFP, CLU, CHS

When an individual takes money from a line of credit (LOC), and invests that money, the interest paid on the invested portion is tax deductible. The tax deduction is a dollar-for-dollar deduction, meaning an interest payment of $3,000 will reduce your taxable income by $3,000. This can create quite a few strategies for saving on taxes when investing. Here's an actual case study I'm working on (names and details have been changed).

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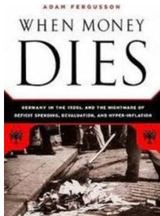
BOOK OF THE MONTH

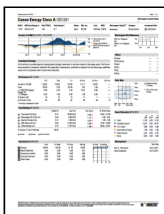


WEALTH, WAR & WISDOM

- by Barton Biggs

In 1923, with its currency effectively worthless the German republic was all but reduced to a barter economy. Expensive cigars, artworks, and jewels were routinely exchanged for staples such as bread; a cinema ticket could be bought for a lump of coal. People watched helplessly as their life savings disappeared and their loved ones starved. Germany's finances descended into chaos, with severe social unrest in its wake. Money may no longer be physically printed and distributed in the voluminous quantities of 1923. However, "quantitative easing," that modern euphemism for surreptitious deficit financing in an electronic era, can no less become an assault on monetary discipline

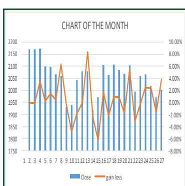
FUND OF THE MONTH



FORGE FIRST LONG SHORT ALTERNATIVE FUND

To provide a positive net total return, regardless of market conditions or general market direction, with low correlation to North American equity and credit markets. The Fund uses alternative investment strategies, such as equity long/short, pairs trading, arbitrage traading, thematic trading, the use of derivatives for leverage and/or borrowing for investment purposes, and seeks to achieve its objectives by investing primarily in equities, ETFs, fixed income and listed options in N.A. markets.

CHART OF THE MONTH



GUIDE TO THE MARKETS

J.P.Morgan Asset Management

A series of charts from the Global Market Insights Strategy Team at J.P. Morgan Asset Management Team.

The charts cover a range of sectors including: Equities, Fixed Income, Alternatives; as well as economic and International issues.

The reference guide concludes with charts relating to Investing Principles.

Think Advisor

BLOG OF THE MONTH

SELF-DIRECTED OLDER INVESTORS MORE LIKELY TO VEER OFF FINANCIAL COURSE

Investors who delegate portfolio management to investment professionals are more likely to “stay the course” during periods of market volatility. This is one of the key findings in new research where I reviewed the trading activity of defined contribution (i.e., 401(k)) participants in 2020.

These findings have important implications for investors, especially older investors, because older investors were the most likely to transact, as well as financial advisors, because it empirically demonstrates how advisors can help investors achieve better financial outcomes.

I often joke that I love a good bear market because it gives us researchers a chance to see what products and solutions actually help investors when the going gets rough.

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PRIVATE WEALTH

INFORMATION AND SOLUTIONS FOR HIGH NET WORTH INVESTORS

MANY MILLIONAIRES SHARE THESE 5 PERSONALITY TRAITS—AND THEY'RE A 'RELEVANT FACTOR IN WEALTH ACCUMULATION,' STUDY SAYS

Want to become a millionaire? Turns out, your personality might help — or hurt — your chances.

A new study from the Socio-Economic Panel (SOEP) at the German Institute for Economic Research and the University of Munster found that millionaires, especially self-made ones, tend to be more risk-tolerant, emotionally stable, open, extroverted and conscientious than everyone else.

Robb Report

HIGH-SECURITY PANIC ROOMS ARE ALL THE RAGE. HERE'S WHAT THEY LOOK LIKE NOW

Most people don't notice the bookcase in the Costa Rica hilltop vacation home, lined with popular biographies and thrillers by Clive Cussler, John Grisham and Dan Brown. Their eyes rest instead on the tropical views through the room's windows. But like the adventure stories it holds, the bookcase also has a mystery at its heart: Its deliberately ordinary facade conceals a bulletproof steel door weighing hundreds of pounds, yet so finely balanced that a small child can easily open and close it. And behind that door lies a panic room.

LIFE INSURANCE OFFERS UNTAPPED POTENTIAL IN HIGH-NET-WORTH PLANNING

Sophisticated advisers begin to value life insurance as a central building block for capital preservation and wealth transfer

Working between executive teams at the major life insurance companies and high-net-worth individuals for the better part of the past 30 years, it's difficult not to encounter the benign but outdated stereotypes regarding insurance products and their role within the investment and estate planning industries.

THE GIFTING CONSIDERATIONS OF CANADIAN ULTRA-HIGH-NET-WORTH FAMILIES

When it comes to gifting money, it's a good idea to understand tax-related considerations. In his report, Give a little bit…, Jamie Golombek, Managing Director, Tax and Estate Planning, CIBC Private Wealth Management, explains that "there can be taxes that arise depending on what is made as a gift."

If you have what Golombek refers to as "never money" - money that will never be spent in your lifetime - he suggests that "you can make 'inter-vivos' gifts during your lifetime, or 'testamentary' gifts upon your death. You should only use 'never money' for inter-vivos gifts to avoid depleting funds that you will need for yourself (and your spouse or partner) during your lifetime(s).

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CORPORATE CULTURE

ESCALATION OF CYBERCRIME-AS-A-SERVICE HAS MAJOR RAMIFICATIONS

As technology evolves, so does cybercrime. In fact, most people do not realize that today's cybercriminals leverage the same technologies, business models, and service offerings that ordinary, non-criminal enterprises use. Similar to the software-as-a-service (SaaS) model where consumers access software and services in exchange for a monthly or recurring fee, the market for cybercrime-as-a-service (CaaS) is rapidly expanding. Attackers can rent sophisticated cybercrime technologies and platforms (e.g., phishing-as-a-service, ransomware-as-a-service) as a subscription-based model.

UNDERSTANDING PRIVATE EQUITY (PE)

You've probably heard of the term private equity (PE). Roughly $3.9 trillion in assets were held by private equity (PE) firms as of 2019, and that was up 12.2 percent from the year before.

Investors seek out private equity (PE) funds to earn returns that are better than what can be achieved in public equity markets. But there may be a few things you don't understand about the industry. Read on to find out more about private equity (PE), including how it creates value and some of its key strategies.

WHAT IS A 'POISON PILL' AND WHY IS TWITTER SWALLOWING ONE?

It's been a wild ride for Twitter investors recently, to say the least. In just two weeks, Elon Musk became one of the social media giant's largest shareholders, said he was joining the board, backed out of joining, and then launched a hostile takeover bid. Now, Twitter is fighting back, hoping to maintain its independence. On Friday, management enacted a limited duration shareholder rights plan, also called a "poison pill," in case it wants to ward off Musk's unwelcome $43 billion "best and final" offer.

But what is a so-called corporate poison pill, and why would Twitter take one?

SHARE PURCHASE AGREEMENTS: PRE-CLOSING TAX LIABILITIES

In every share purchase agreement there are various provisions which allocate the risk associated with taxes amongst the buyer and the seller. While each agreement is unique in its details, reflecting the underlying objectives of the parties, there are general provisions, concepts and themes which can be seen in most share purchase agreements in Canada. One such theme is that buyers do not want to be responsible for taxes that relate to the target company's pre-closing period. This article discusses the manner in which share purchase agreements typically make the seller liable for taxes that relate to a pre-closing tax period: namely through net working capital and a separate tax indemnity.

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FUND MANAGER COMMENTARY

RAM ZILKA
QV INVESTORS INC

STEPHEN DUENCH
AGF INVESTMENTS INC

NOAH BLACKSTEIN
DYNAMIC FUNDS

TODD MATTINA
MACKENZIE
INVESTMENTS

Ram Zilka, Research Associate, Global Equity

QV Investors Inc.

Uncertainty Breeds Opportunity

So far in 2022, inflationary pressures have continued to build while expectations for global growth have decelerated. Looking at US equity market trends, only the energy sector has reported strong returns while most other sectors are flat to down year-to-date.

Continue Reading

Stephen Duench, V.P. and Portfolio Manager

AGF Investments Inc.

Revisiting The Threat Of An Inverted Yield Curve

The start of the U.S. Federal Reserve's latest rate-hiking cycle has some investors keeping close watch on the shape of the U.S. Treasury yield curve – and who can blame them? After all, if short-term rates continue to climb higher – and end up being greater than long-term rates – it would lead to an "inverted" yield curve, which has tended to be a very good canary for predicting past recessions, history shows.

Continue Reading

Noah Blackstein, Portfolio Manager

Dynamic Funds

The rally that began in the middle of March continued into the first two days of April. But recently, any slight reprieve seems to be met by another hawkish speech by a Fed government to such a coincidence, it can only be seen as likely deliberate. This week it was Lael Brainard, nominee for Vice Chair of the Federal Reserve, talking about being more aggressive in balance sheet run off.

Continue Reading

Todd Mattina, Senior V.P., Chief Economist, Portfolio Manager

Mackenzie Investments

Inversion Diversions

The yield on 2-year Treasuries now exceeds the yield on 10-year Treasuries, the conclusion of a year-long flattening trend in the yield curve. An inverted 10-2 Treasury yield curve has preceded the past eight recessions, going all the way back to 1970. In the world of economic indicators, the batting average of the inversion signal is impressive, although it is difficult to disentangle correlation from causation. Even the most confident disciple of the inversion signal would stop short of suggesting the 2019 inversion predicted the Covid-related recession in 2020. At the same time, the inversion signal is not just a statistical quirk.

Continue Reading

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LINKS

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The Canada Child Benefit Offers A Tax-Free Monthly Payment & Here's Who's Eligible For It	Pizza Prices Surpass Subway Fares, Upending Decades of NYC Economics	Here's What Made Money in Q1… Will It Continue?
The Bond Market Losing $2.6 Trillion I Actually Good News	It's Not Fair! Sequence Of Returns Risk	The Yield Curve Just Inverted….Now What?
5 Reasons To Hire A Financial Planner As A Millennial	The U.S. Economy Is Booming. So Why Are Economists Worrying About A Recession?	Lengthening War In Ukraine Creates Major Problems For Global Economy

TAX HIGHLIGHTS FROM THE 2022 FEDERAL BUDGET

Canada's Finance Minister, the Honourable Chrystia Freeland, tabled the 2022 federal budget on April 7, 2022. The Canadian economy returned to its pre-pandemic level of activity in the fourth quarter of 2021. Real GDP also grew 6.7% at an annual rate in the last quarter of 2021.

J.P.Morgan Asset Management

GUIDE TO THE MARKETS

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

Gold Miners Face Depleting Reserves, High Geopolitical Risk: Gold Analyst John Ing	Geopolitical Risk 'So Much More Than Ukraine War'	Goldman Says Recession Risks Are Growing, But It's Too Early To Worry. Here's Why

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

They acquire too much confidence from the information that is available to them, and they think they are right much more often than they actually are.”

One of the most difficult obstacles ‘experts’ in the investment industry struggle to overcome is Confirmation Bias. This refers to how we tend to pay more attention to information that fits our beliefs. This biased approach to decision making is mostly unintentional but often results in ignoring inconsistent information that does not validate our views.

If you are a long-term investor then, I believe, fundamentals will play a large part in a successful investment strategy, but over any short-term period, I would assert that it is market sentiment that plays a larger role.

The “Collective Investor Population (CIP)” drives the market in the short-term and unfortunately the “CIP” can be influenced by too many factors to list here, but do include: industry reports, computerized trading, news articles, media opinions, fatalist reports and “hot tips” by your mechanic or postman. One of the biggest emotional distresses is caused by Headlines. You can’t open up a newspaper these days without seeing bad news about: war, tightening, monetary policy, rising interest rates, plunging consumer sentiment, recession, and the highest inflation rate in 40 years. Naturally we assume things will only get worse so look for ways to cauterize the wounds and ease the pain.

Former Federal Reserve Chairman, Alan Greenspan, was very aware of these short-term market moving causes when he stated in August 1999 that “valuations are shaped in part, perhaps in large part, by the economic process itself. But history suggests that they also reflect waves of optimism and pessimism that can be touched off by seemingly small exogenous events.”

For the most part we live in a stable economic system that is continuously being bombarded by stimuli that cause imbalances in that system which tend to produce unusual outcomes and apparent instability. History has shown time and again that “reversion to the mean” is always the final outcome. Reversion to the Mean is a mathematical concept that states that “when a system of numbers departs from a long-standing pattern, eventually the system will return to this ordinary range.” (Eric Reed, Smart Asset)

What this concept does not tell us is the magnitude of volatility during this imbalance from the mean or the way investors deal with this in logical and emotional ways. When the media bombards us with by-the-minute negative news about a geopolitical event, we throw logic and fundamentals to the wind and react to the news. It is human nature. An enormous number of investors will learn of these events and transpose their severity into the long-term. When the system seems to be breaking down investors suffer an immediate collapse of any logical market comprehension or confidence in future economic events.

Years ago I coined a phrase to describe this type of investor. I called them the “Eternal Extrapolists”. These investors believe the current situation is going to last forever. They are wrong! Nothing ever lasts forever. Greenspan used an analogy to describe this attitude. He said it was as though, “like a dam under mounting water pressure, confidence appears normal until the moment it is breached.”

These geo-political situations often create an intense sense of risk aversion where long-term invest strategies are replaced by fear-induced reactions. Unfortunately when something like the current Ukraine/Russia conflict occurs, investors seem to fear most asset classes causing an increasing correlation between them as they lose value together.

Panic causes investors to throw logic to the wind and focus on minimizing their short-term losses. The long-term investment strategy they adhered to is now deemed insignificant. By the way, this emotional response to geo-political events is not new. It is the same response that investors have experienced throughout history whether it was the Dutch tulip bulb bubble in 1637 or the devaluation of the Thai Bhat in 1997, the price patterns remain much the same.

The collapse of investor confidence is unpredictable and occurs at the drop of a hat. We usually describe these situations as a bursting bubble, or an event that we can only identify in retrospect. It is the social mood of investors that moves markets in erratic ways in the short term. I find it fascinating that psychology seems to play a larger role in determining short term market movements than fundamentals do.

In fact, there is science behind this conclusion. Dr. Joseph Ledoux, a psychologist at the Center for Neural Science at NYU noted that emotion and the reaction caused by such emotion occur independent and prior to, the ability of the brain to reason. The brain is arranged so key aspects of emotional life, like primitive fears, can operate largely independent of thought. This may explain why certain emotional reactions by investors, are so tenacious despite their obvious irrationality.

EDITORIAL COMMENT - CONTINUED

So, what do we do with our portfolios during these crazy times. In the words of famed investor and founder of the Vanguard Group, John C. Bogle, “don’t do something, just stand there!”. The risk of timing error is likely to do more damage to future portfolio growth than sitting on your hands and waiting it out. If we can’t clearly explain with evidence-based rationale, why we are recommending a change, then we won’t make a change. This is especially true when we are under duress. Turmoil clouds our rational thought processes.

One of the things I do is look at historical events of similar magnitude. My go to is the S&P 500 index. Since 1928 it has returned an impressive 10% per year, but definitely not in a straight line upward. To have earned that 10% return, an investor would have had to incur a median intra-year drawdown of 13%. Interestingly, that is what investors have experienced so far in 2022. (see following chart)

S&P 500 Index: Max Intra-Year Drawdowns vs. End of Year Total Returns (1928 - 2022)

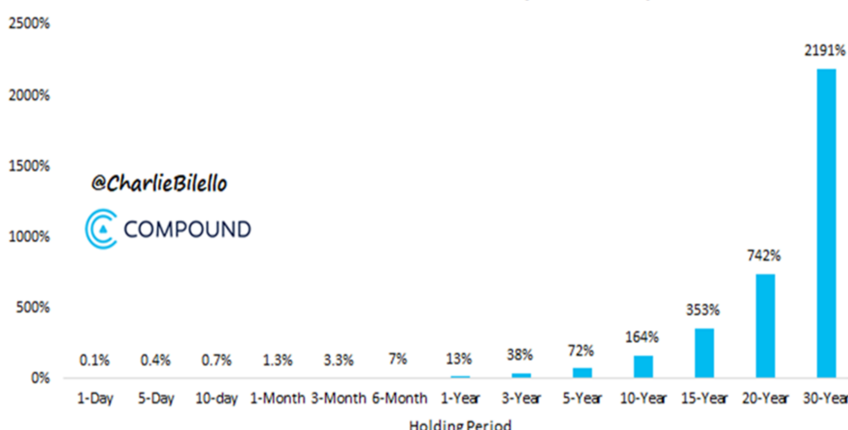
Year	DD	TR	Year	DD	TR	Year	DD	TR	Year	DD	TR	Year	DD	TR
1928	-10.3%	43.8%	1947	-14.7%	5.2%	1966	-22.2%	-10.0%	1985	-7.7%	31.2%	2004	-8.2%	10.9%
1929	-44.6%	-8.3%	1948	-13.5%	5.7%	1967	-6.6%	23.8%	1986	-9.4%	18.5%	2005	-7.2%	4.9%
1930	-44.3%	-25.1%	1949	-13.2%	18.3%	1968	-9.3%	10.8%	1987	-33.5%	5.8%	2006	-7.7%	15.8%
1931	-57.5%	-43.8%	1950	-14.0%	30.8%	1969	-16.0%	-8.2%	1988	-7.6%	16.6%	2007	-10.1%	5.5%
1932	-51.0%	-8.6%	1951	-8.1%	23.7%	1970	-25.9%	3.6%	1989	-7.6%	31.7%	2008	-48.8%	-37.0%
1933	-29.4%	50.0%	1952	-6.8%	18.2%	1971	-13.9%	14.2%	1990	-19.9%	-3.1%	2009	-27.6%	26.5%
1934	-29.3%	-1.2%	1953	-14.8%	-1.2%	1972	-5.1%	18.8%	1991	-5.7%	30.5%	2010	-16.0%	15.1%
1935	-15.9%	46.7%	1954	-4.4%	52.6%	1973	-23.4%	-14.3%	1992	-6.2%	7.6%	2011	-19.4%	2.1%
1936	-12.8%	31.9%	1955	-10.6%	32.6%	1974	-37.6%	-25.9%	1993	-5.0%	10.1%	2012	-9.9%	16.0%
1937	-45.5%	-35.3%	1956	-10.8%	7.4%	1975	-14.1%	37.0%	1994	-8.9%	1.3%	2013	-5.8%	32.4%
1938	-28.9%	29.3%	1957	-20.7%	-10.5%	1976	-8.4%	23.8%	1995	-2.5%	37.6%	2014	-7.4%	13.7%
1939	-21.2%	-1.1%	1958	-4.4%	43.7%	1977	-15.6%	-7.0%	1996	-7.6%	23.0%	2015	-12.4%	1.4%
1940	-29.6%	-10.7%	1959	-9.2%	12.1%	1978	-13.6%	6.5%	1997	-10.8%	33.4%	2016	-10.5%	12.0%
1941	-22.9%	-12.8%	1960	-13.4%	0.3%	1979	-10.2%	18.5%	1998	-19.3%	28.6%	2017	-2.8%	21.8%
1942	-17.8%	19.2%	1961	-4.4%	26.6%	1980	-17.1%	31.7%	1999	-12.1%	21.0%	2018	-19.8%	-4.4%
1943	-13.1%	25.1%	1962	-26.9%	-8.8%	1981	-18.4%	-4.7%	2000	-17.2%	-9.1%	2019	-6.8%	31.5%
1944	-6.9%	19.0%	1963	-6.5%	22.6%	1982	-16.6%	20.4%	2001	-29.7%	-11.9%	2020	-33.9%	18.4%
1945	-6.9%	35.8%	1964	-3.5%	16.4%	1983	-6.9%	22.3%	2002	-33.8%	-22.1%	2021	-5.2%	28.7%
1946	-26.6%	-8.4%	1965	-9.6%	12.4%	1984	-12.7%	6.1%	2003	-14.1%	28.7%	2022	-13.0%	?

Note: Closing Prices (does not include intra-day or dividends) COMPOUND @CharlieBilello

Some investors believe that they should take immediate action and liquidate their investments and moving them to cash. They are convinced that if they wait for better times then they can make up the losses they had by selling out. They are sure that once the headlines are filled with positive news, it will be a safer time to invest.

Unfortunately, if you are exposed to the markets, there is no such thing as a safe time to invest. Risk is always present, even if it is temporarily tamed within the gains of a bull market.

If you are committed to being a long-term investor, each of the red cells in the chart should be viewed as an opportunity, because time is on our side. History has shown us that the longer the holding period, the more time we have to compound our returns.



This has been true irrespective of where the market is relative to its all time high. If we can take a step back and look ahead, we will see higher future returns following periods of higher drawdowns.

An investor with a long time horizon should look at any stock market drawdown as a gift which gives you the opportunity to add new capital directly or via reinvested dividends at lower prices. If you can accept an increase for volatility and drawdowns, the best time to add exposure is often during the largest declines.

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CHART OF THE MONTH - CONTINUED

Markets Eventually Recover Despite Volatility

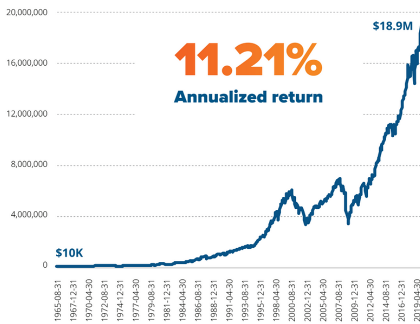
S&P/TSX Composite Total Return Index

	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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Disclaimer

One In Four Will Have To Deal With A Disability Before Reaching Retirement - CONTINUED

But what happens if you live and are disabled and not able to perform your duties? It saddens me to know that the reality of one in four of us will have to deal with a disability before reaching retirement. Not only is this a health issue but also a major financial crisis. Critical illness or an accident particularly in your prime earning years may result in permanent or temporarily not being able to provide an income, causing substantial financial burden.

The reality of having to support your family, yourself and or a business is very real. How many people rely on your income? Are you flexible when it comes to changing jobs if you're not able to perform your original duties? Your car payments and mortgage, emergency savings and of course your life goals and dreams are at risk. Retirement would not look the same if your disability lasted longer than your savings. I realize this may seem pessimistic, but you don't want to be saying "I should have" in the event of a gap in your income due to a disability or illness when this can be prevented. Disability insurance is necessary especially if you perform a high-risk occupation or are the main provider in your household or a business owner. You may have health insurance or unemployment insurance, but this may not cover all that you may need or for the right amount of time.

A rough estimate of the disability insurance cost is approximately 2% of annual salary. Keep in mind it depends on the policy features and the carrier. Everyone has a different preference when it comes to how much they want to pay in exchange for more protection or less, from potential disabilities or illnesses. A prime example of this would be a worker (Bob), with a specialized skill and a very large income of $200,000 per year versus the freshly graduated employee (Sandy) with a $30,000 per year income. Bob knows that if he became disabled and was able to return to work after a leave he could be placed at a different job and knows his income would decrease significantly. Bob with a higher income would purchase a more expensive disability insurance plan that would offer a more flexible definition of disability. Sandy, the freshly graduated employee would probably stick with the lower premiums because her skill is not specialized and if she returned to work after an illness or accident with different responsibilities her income wouldn't change significantly.

Long term disability is often added to a life insurance policy as a rider but can also be purchased on its own. The protection that Long Term Disability (LTD), or income replacement, provides is just that, your income will be replaced in the event of a disability. Various companies offer slightly different terms and conditions.

Your health is one of your greatest assets, as it provides you with the ability to earn an income, and disability insurance is part of that ability. You should protect your income the same way you do with your home and vehicle. How long would you be able to go without an income before financial issues arise, would it be weeks? a couple of months?

Let's consider the average income of a 35-year-old is $65,000, and you're planning to work until 65, only 30 years of work remaining. At a very simple level, the total income over this time would be $1,950,000. If you didn't have disability insurance and became disabled and unable to work tomorrow, you'd lose out on $1,950,000 over your lifetime. But remember not all disabilities are permanent, some are temporary or nonvisible like mental illness. Let's imagine you have recovered from an accident or an illness after a short two-year period; you'd be missing out on $130,000. Not too many of us have that type of extra income for an emergency like this.

With disability insurance, typically, 60 to 85 percent of your monthly gross income would be protected in the event of an accident or illness. The cost for this protection is small in comparison to the significant payout benefits from the insurance company. Age, sex, smoking status, health, past and present, occupation are all factors in the premium costs.

When putting together your coverage a few things to know are as follows. The waiting period is the length of time before you receive your first benefit payment. The length of time that you would receive your benefit payments for, this is referred to as the benefit period. The most important factor with a policy is what the definition of a disability, as defined by the policy. There are conditions that a policy holder must satisfy before receiving a financial benefit and our agents will go through all the details with the policy holder. At **KPW Financial** we have access to a variety of insurance carriers so that we can put together the best disability coverage for you according to your responsibilities, income, and lifestyle. We look forward to helping you protect what is important to you, your self and your family

Fundamentals of Retirement Planning —Continued

Seemingly, the first and most important question when it comes to retirement planning is how much will be needed to retire? The answer is obviously unique to everyone, but there are varying ideas and theories about how much one should save for retirement amongst professionals as well.

There's a consensus that retirement cash flow should equal 70% to 80% of your pre-retirement income, but this is not a one size fits all solution. This is more a general rule of thumb; a good starting place, but there's more work to be done. It's safe to say that everyone's goals and priorities are different, so it's more important to plan for how someone wants to live in retirement and go from there.

Establishing goals lays the groundwork, and from there you can work with your advisor to establish what steps will be taken to achieve them.

Another pressing question is how you can maximize your retirement savings.

Canadians do not score very highly on their understanding of how Canadian retirement programs and concepts work, including topics such as employer plans, government savings and pension plans, and other general financial knowledge. Again, there's an abundance of investment options as well as plan types to choose from, which leads to some of the confusion.

As a rule of thumb for retirement savings, it is advisable to prioritize employer-matched retirement plans, if your work offers to match your contributions. Despite certain limitations, the reality of the instant return on your investment (contributions) makes these plans ideal to maximize first. Next, it's typically recommended to utilize a Registered Retirement Savings Plan (RRSP). As a reminder, your contributions are tax-deductible, so you pay less taxes today when you make deposits. However, you will pay tax on that money (and any interest or gains) when you withdraw it in retirement.

In a Tax-Free Savings Account, your deposits aren't tax-deductible, but unlike the RRSP, any interest or gains are completely tax-free. Some people use their TFSA for short or medium-term savings goals, but it's also a great tool for long-term retirement saving.

The order of which these two options should be used varies depending on income and other variables, so it's best to establish which makes most sense to utilize and in what capacity with your trusted advisor. Despite their undeniable value, both RRSPs and TFSAs are underutilized while most don't maximize their contribution limits. This is a result of not having the funds available rather than a lack of desire, but to curtail this we recommend setting up smaller, regular automatic RRSP or TFSA contributions that will allow you to pay yourself first and save for retirement in a manageable way.

Retirement in Canada doesn't quite look the way it used to. Due in large part to the economic consequences of the pandemic such as government debt, inflation and interest rates, a recent study found that one quarter of Canadians report needing a miracle to be able to retire financially secure. This same study suggests that those who save are bearing an increasing share of the responsibility for funding their retirement and are increasingly looking to the private sector and financial advisors for assistance.

Among several concerns, inflation is considered the biggest risk, but many also worry that low interest rates will make it difficult to generate income in retirement. Health care is another big concern, as many fear that these costs will consume their savings. It has been argued that the pandemic accelerated long-term trends that are eroding the prospect of retirement security for many.

Thus far, the massive fiscal stimulus and stagnant interest rates brought about by governments' response to the pandemic have worked against retirees, who are vulnerable to low yields. The survey found that of the Canadians currently saving current income for retirement, more than a quarter believe they will not have enough to retire comfortably. More people than not have not been saving as much as they should for retirement and are looking for ways to get on track.

Our best advice is to get a plan in place and follow through, of course making revisions as necessary along the way. In addition to having a plan, it's important to understand the risk of your investments, both in terms of taking on too much risk or not enough, and how this may impact your ability to reach your retirement goals.

At the end of the day, it's so important to work with a professional to determine what sort of retirement you aspire to achieve and establish a plan that will help you get there.

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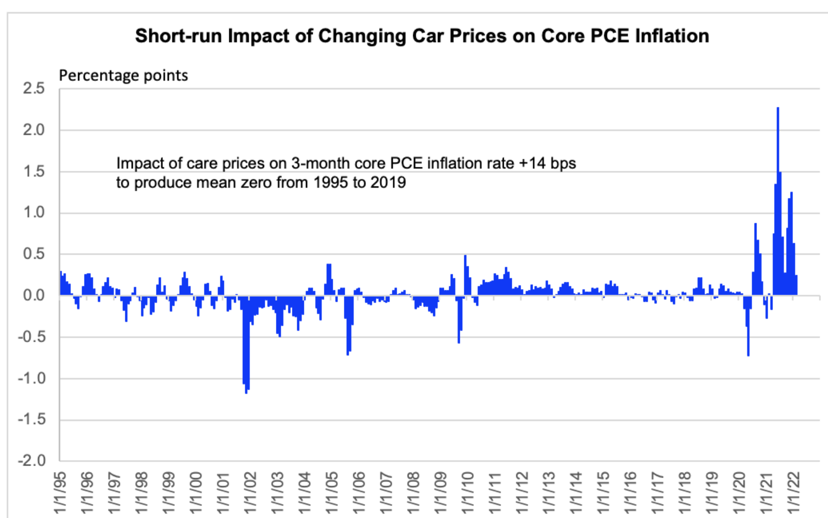
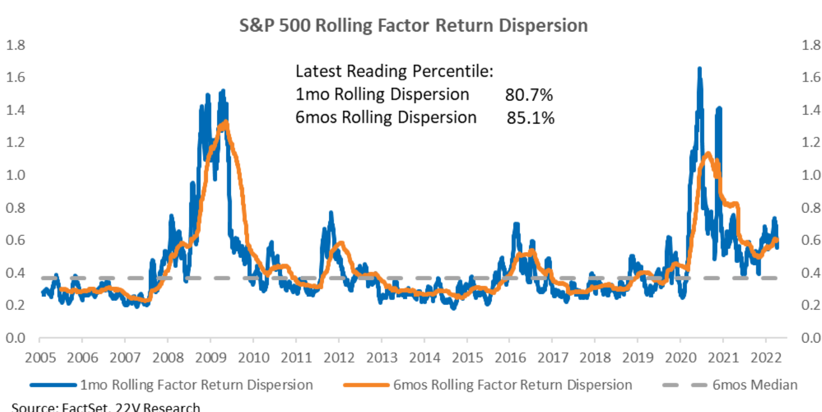
Noah Blackstein —Continued

It's fairly clear that the CPI number next week will represent peak US headline inflation. We are beginning to see the decline in used car prices and other big ticket consumer goods. According to 22VS research, used car prices "fell again during March, recording what is reportedly the third largest decline on record." They go on to argue that the market ought not fade this development. In a forecast of core PCE inflation, durable goods price inflation soon turns into deflation at a rate of 4 ¾% annualized, a record. This should make current consensus inflationary positioning very interesting from here. It may also offer a reprieve to the severely battered bond market.

Despite the current policy hell we are living through, the most important focus should be on the secular opportunity for the names in the Portfolio. Earnings have come in much better than expected for the companies we own, and their outlooks remain exceptional. This is critical to what we do. There is always somebody running around with a Malthusian scarcity case for a company or industry, but our success is attributable to those generators of Schumpeterian gales of creative destruction. Growth is not an asset class or a factor. Growth is the fundamental underpinning of the long term success of a company and its stock price.

With stronger earnings and revenues in the face of stock price declines, many companies in our universe remain exceptionally attractive. While many investors seem content on making daily switches between inflation plays and recession factor plays as evidenced by extremely high factor volatility, we continue to focus on the individual companies.





Case Study, Tax Deductions From Line of Credit—Continued

Peter is 69 years old and recently retired. He has a small RRSP with about $40K in it and owns his own home. Most of his income is made up of CPP and OAS. Peter also has access to a $300,000 line of credit that charges a 3% interest rate. Peter wants to downsize his home and is planning on selling in about three years. He conservatively expects to get about $900,000 for the home after some renovations. Peter needs about $50K to renovate his home. He investigated doing a reverse mortgage but decided it was not the route he wanted to take. Peter makes about $28K per year in CPP/OAS and needs an additional $25K a year to cover expenses ($53,000 in total income needed).

When Peter approached me, he said that he had planned on converting his RRSP to a RRIF to help cover his $25K annual expenses. He would also take $80,000 out of his line of credit in which $50K would go towards home renovations and $30K towards income for the next 3 years ($10K per year). Under this plan, Peter would need to draw about $15K from his RRIF. Such a large withdrawal (38% of his RRIF per year) would drain the account in less than 3 years, most likely leaving him with a shortfall in year three. Moreover, the $15K from his RRSP is additional taxable income, meaning a potential for an OAS clawback and further reduction in income.

That was Plan A.

My strategy, which we call Plan B, was to use Peter's TFSA to help claim an income deduction while also providing the needed income until he sells his house. Here's how:

Peter's TFSA has only about $9,000. If Peter withdraws the entire $9,000 at the end of the year, he will have an additional $9,000 of room in his TFSA come January 1st, 2023. That means, his total contribution room for 2023 will be approximately $96,500. Calculated as follows:

$81,500 (unused carry forward from previous year's room)

+ $6,000 (current year's room)

+ $9,000 (previous year's withdrawal)

Peter can put $96,500 into his TFSA on January 1st, 2023, and Peter can use his line of credit to fund that TFSA contribution. That's an annual interest payment of just shy of $3,000 tax deductible.

At this point, the TFSA could cover the next three years of income need of $25K per year. Remember, in Peter's original plan, he would access $10k/year from the line of credit and $15K/year from the RRIF. Now he can access $25K/year from the TFSA (tax free) for the next three years. As for the interest payment, Peter should take the $3,000 he owes in interest from his RRSP. The money will come out of the RRSP as 100% taxable income and then be 100% deductible as an interest payment. $3,000 added on to income; $3,000 taken off income. With this strategy, Peter can collect 100% tax free income with

no consequences to his OAS payout, and also take about 7% or $3,000 out of his RRSP with zero tax consequence. From a tax perspective this ends up saving Peter about $9,000 in taxes over three years. It also prolongs the lifespan of his RRSP – theoretically the RRSP can exist until Peter dies since the downsizing strategy will provide more income and fewer expenses.

There are however some downsides that Peter needs to consider. First, to maximize the full use of the TFSA, Peter needs to wait until January 1st of next year before receiving tax efficient income. That means holding off on the home renovations for another 8 months, and possibly delaying the house sale. Peter could still invest the LOC into a non-registered account for the next 8 months but there may be tax consequences. Fortunately, Peter has already delayed selling the home and has described a situation in which delaying is not exactly problematic. A second issue is that Peter will still need to cover $50K for home renovations. This means accessing additional money from the line of credit and reducing the total amount received from the sale of the home (Peter will pay off the LOC using money from the home sale). Peter could use the $9K from the original TFSA withdrawal but that means he'll still need $41K from the LOC. Lastly, the tax benefits of this strategy weaken every time Peter takes money out of the TFSA. Every dollar taken out of the TFSA becomes a non-deductible expense for Peter. This means in year one of the strategy, Peter's tax savings will be much higher than year three or four. Also, since the RRSP will still exist after the house sale, Peter's annual tax bill will be slightly higher since he'll need to draw money as per the mandatory RRSP rules that kick in at age 72.

This strategy results in small tax savings but given the importance of CPP and OAS for Peter, it may prove the better option over both the short and long-term. The scale of this strategy can be both small (as it is for Peter) or much larger. In Peter's case, this strategy is best as a way to save on income taxes and prevent an OAS clawback; however, on a larger scale, this strategy could be a great way to access large sums of RRSP money with no tax consequences.

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