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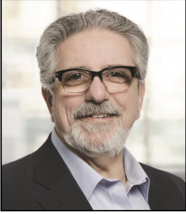
KPW LIFE PLAN—IMAGINE YOUR FUTURE

VOL. 11, ISSUE 7

JUL 2022

"That men do not learn very much from the lessons of history is the most important of all the lessons of history." **- Aldous Huxley**



Sergio Simone
EDITORIAL COMMENT

Kristina De Souza, CFP
MORTGAGE MULLINGS

Roberta Di Petta
PERSONAL MEDICAL INSURANCE

Ryan Simone, CFP, CLU
RRSPs, RRIFs, AND THE ORDER OF ASSET WITHDRAWALS

EDITORIAL COMMENT

Sergio Simone

I will begin this Editorial by stating the obvious, "Market pullbacks are not a new phenomenon!" To many investors dealing with the likes of the harshness of the current decline, especially those experiencing it for the first time, may experience a jarring effect to their psyche. At the risk of repeating myself ad nauseum, I want to stress that volatility and severe downturns are nothing new. They have always been a part of the investment experience and always will be. Further, I'd like to point out how little it matters in the long run by using factual data to backup my beliefs and opinions.

MORTGAGE MULLINGS

Kristina De Souza, CFP

As the year progresses, I continue to experience a recurring theme in client conversations- the topic of mortgages and which variations are best. This decision on rate types and terms is not an easy one to make in the best of times, but in this high inflation, rising rate environment, coupled with market uncertainty across the board (financial and real estate), it has many grasping at straws and looking for guidance. In my experience, recommendations on mortgage solutions vary, depending on the source.

PERSONAL MEDICAL INSURANCE

Roberta Di Petta

In Canada, Canadians have access to public health care. Saying this we also know that government health care is not enough to cover all the different needs that may occur through out our life span. If you were to get sick or injured, your government health plan may not cover all your medical bills or financial needs.

RRSPs, RRIFs, AND THE ORDER OF ASSET WITHDRAWAL

Ryan Simone,
CFP, CLU, CHS

For those who are approaching retirement or are already in retirement, there may be several sources of income that will make up your monthly paycheque. The most common sources are CPP (begins at 60 or later) and OAS (begins at 65 or later). Defined contribution pensions and defined benefit pensions are also common sources of income in retirement, although the latter is becoming increasingly scarce for private sector Canadians.

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VOL. 11, ISSUE 7 JUL 2022

"Over the last few years, the landscape of financial advice has proven increasingly challenging to navigate. But for Wealth Professional's 5-Star Advisory Teams for 2022, those challenges have been opportunities to evolve and grow.

In selecting this year's crop of 5-Star Advisory Teams, Wealth Professional sought nominations of teams from across Canada. The process looked for teams that meaningfully contributed to their clients through differentiated service offerings and enhanced value propositions.

Among the hallmarks that set this year's teams apart is a focus on personalization. Rather than trying to be everything to everyone, they offer dedicated services and shape their business models to address the needs of their own specific book of clients.

We are honored to receive this award and look forward to providing continued excellence in service and value for our clients."

Your KPW Team

Sergio Simone

Kristina de Souza

Ryan Simone

Rosy Ragno

Roberta Di Petta

Katrina Van Rhee

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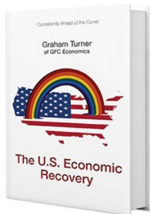
VOL. 11, ISSUE 7 JUL 2022

To Page 1 To Links Page

BOOK OF THE MONTH



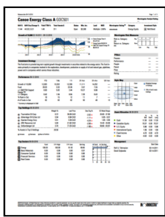
THE U.S. ECONOMIC RECOVERY

- by Graham Turner

The U.S. Economic Recovery is an optimistic analysis, which argues that the economic upturn underway in the US can be sustained. It draws upon the lessons of the Great Depression and the cycle of relentless boom and bust witnessed since the early 1970s. It outlines the rationale behind a policy of cheap, but tight money needed to underpin the economic recovery and secure a full employment that will endure.

This book also offers a critique of monetary and fiscal policy since late 2008 in response to the subprime debacle.

FUND OF THE MONTH

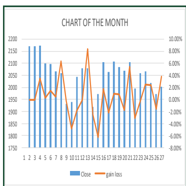


CANOE EQUITY PORTFOLIO CLASS F

The Fund aims to provide long-term capital growth by investing primarily in Canadian equity securities. The Fund may also invest in gold, gold certificates, silver certificates and certain gold/silver ETFs. The Fund invests in companies that the PM believes offer the potential for growth over the long term. When buying and selling securities for the Fund, the PM examines each company's potential for success in light of its current financial condition, its industry position and economic and market conditions. The PM considers factors like growth potential, earnings estimates, and quality of management.

CHART OF THE MONTH

A REVIEW OF PAST RECESSIONS



A recession denotes a significant, persistent, and widespread contraction in economic activity. The U.S. has suffered 14 official recessions since the Great Depression and other countries experience them as well, making clear such downturns are a recurring feature of the economic landscape. Since economies tend to grow most of the time, a recession and the economic hardships it inflicts are big news and a departure from the economy’s usual expansionary mode.

Monevator

BLOG OF THE MONTH

BEAR MARKETS: WHAT THEY ARE, HOW LONG THEY LAST, AND HOW TO INVEST DURING THEM

We’re often told that investing is risky. But it’s during wild bear markets that the risk truly hits home. Most people can handle a 5% temporary loss when the market drops. That’s easily reversed. Even 10% down only smarts a little.
But when the market caves 20%, our belief in solid ground can start to crumble. We realize the bottom could be a long way down. The risk feels real.

Like most of our fears though, the way to confront a bear market is not to let it gnaw at us with ill-defined menace. The risk is best handled by understanding it, knowing your options, and having confidence that this too will pass.

VOL. 11, ISSUE 7

JUL 2022

PRIVATE WEALTH

INFORMATION AND SOLUTIONS FOR HIGH NET WORTH INVESTORS

LOWER THE FAMILY TAX BILL—USING LOANS FOR INCOME SPLITTING

People often consider tax saving strategies on an individual basis but overlook family strategies that can save significant tax dollars. The use of intra-family loans to split income and save taxes is a good example.

Income splitting involves the transfer of income from a high-income earner to a family member in a lower tax bracket. The lower-income individual is taxed at a lower marginal tax rate and the family pays less tax overall. The problem is that the Canada Revenue Agency (CRA) restricts most forms of income splitting through the Income Tax Act's attribution rules.

2022 GUIDE TO HIGH-NET-WORTH WEALTH MANAGEMENT

There are some financial planning services that everyone needs, regardless of your financial situation. That said, there are some things that are especially important for those with a high-net-worth. Here are four services to look for in an advisor if you're a high-net-worth investor:

Estate planning. Estate planning is important for everyone, but it takes on a special resonance for those with a lot of money because they'll likely end up with a sizable estate that they want dealt with efficiently after dying. This financial planning service can help you take the right steps now so that your money and assets are divided up as you see fit after you are gone.

THE FUTURE-EMPOWERED HIGH-NET-WORTH INVESTOR

Across the world, the investment landscape is recalibrating: A new generation of high-net-worth investors is leading wealth ownership and applying their more global attitudes and values to investment strategies. As a result, smart philanthropy, alternative investing and impact investing are on the rise, while some more traditional sectors contract. Signs of a worldwide economic slowdown and trade wars that are chilling business confidence compound this. Change is coming. And as people look to future-proof their portfolios in an increasingly complex environment, there is an even greater need for tech-based tools and seasoned council to help investors leverage insights and dodge risks.

6 STRATEGIES TO PROTECT ULTRA-HIGH-NET-WORTH FAMILY WEALTH

The term ultra-high-net-worth invokes a sense of financial security. Possessing such high amounts of wealth gives most people relief and confidence in leading a financially sound and comfortable life. Typically, an ultra-high-net-worth individual is someone with a financial standing of at least $30 million or more. This could be either in liquid or illiquid assets and include cash, mutual fund investments, shares, real estate, gold, and more.

To Page 1

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KPW LIFE PLAN—IMAGINE YOUR FUTURE

VOL. 11, ISSUE 7 JUL 2022

CORPORATE CULTURE

WHAT IS AN ESOP? (WITH ADVANTAGES, DISADVANTAGES, AND TYPES

ESOPs, or employee stock ownership plans, are a type of business program that appears as investment opportunities, compensations, or incentives for employees. The primary purpose of an ESOP is that it allows an employee to own part of a company. You can make more informed decisions about the ESOPs provided to you by understanding the pros and cons of this type of employee ownership and payment. In this article, we explain what ESOPs are and discuss how they works, the advantages and disadvantages of having them, and the different types of employee stock ownership plans.

ONTARIO SECURITIES COMMISSION

HOW YOUR DB PENSION IS PROTECTED

All contributions made to a defined benefit (DB) plan (both yours and your employer's) are held in trust for the benefit of all plan members. So when you contribute to a DB plan, your contributions are safe.

If an employer goes bankrupt, it can't continue making contributions and the pension plan may not have enough money to pay for the promised benefits (called an "underfunded" plan).

CONFIDENTIALITY/NON-DISCLOSURE AGREEMENT FAQ—CANADA

A Confidentiality Agreement protects confidential information during discussions, proposals, reviews, analysis and negotiations. The agreement allows the disclosing party to share valuable confidential information while retaining control over how the information is used by the receiving party. This type of agreement is useful when disclosing information to a potential purchaser, having an invention evaluated or when an employee will have access to or create confidential information during their employment.

14 EFFECTIVE EMPLOYEE RETENTION STRATEGIES

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

So, now's the time to confirm your business is doing the right things to drive job satisfaction and, ultimately, employee retention and job satisfaction.

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VOL. 11, ISSUE 7 JUL 2022

FUND MANAGER COMMENTARY

KEVIN MCCREADIE
AGF INVESTMENTS

SADIQ S. ADATIA
BMO ASSET
MANAGEMENT

DRUMMOND BRODEUR
CI GLOBAL ASSET
MANAGEMENT

MYLES ZYBLOCK
DYNAMIC FUNDS

Kevin McCreadie, CEO and Chief Investment Officer

AGF Investments Inc.

Recession Watch

Talk of a recession is ratcheting up as the U.S. Federal Reserve and other central banks aggressively raise rates to combat inflation. How worried should investors be?

Continue Reading

Sadiq S. Adatia—Chief Investment Officer

BMO Asset Management

Weekly Commentary

With Canada Day weekend having just passed, it's a good time to look at where things stand in Canadian markets. Let's start with Canadian equities. Despite our views on the broader market becoming increasingly bearish, we see continued upside in Canadian equities.

Continue Reading

Drummond Brodeur—Portfolio Manager and Global Strategist

CI Global Asset Management

The Fed Just Lost The Plot: Recession Risks Escalating

This past week has seen a material shift in markets and market outlooks. At the epicentre of the storm are the U.S. bond market and the Fed, which seems to have lost the plot.

Continue Reading

Myles Zyblock: Chief Investment Strategist

Dynamic Funds

INFLATION AND PROBABILITY OF RECESSION

The performance synopsis for the first half of 2022 reads like a mystery or crime novel where the victim is the financial markets, with investors trying to figure out whether inflation, central bankers, or another culprit was to blame. The casualties in this story are widespread with equities, bonds, and precious metals suffering losses through the year's first six months. Industrial and agricultural commodities were clear outliers, collectively rallying by close to 40% by the end of June.

It was a challenging start out of the gate. The year kicked off with another COVID-19 wave in the form of the Omicron variant

Continue Reading

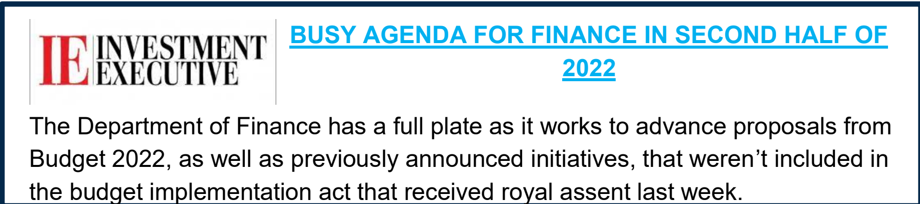
VOL. 11, ISSUE 7 JUL2022

To Page 1

LINKS

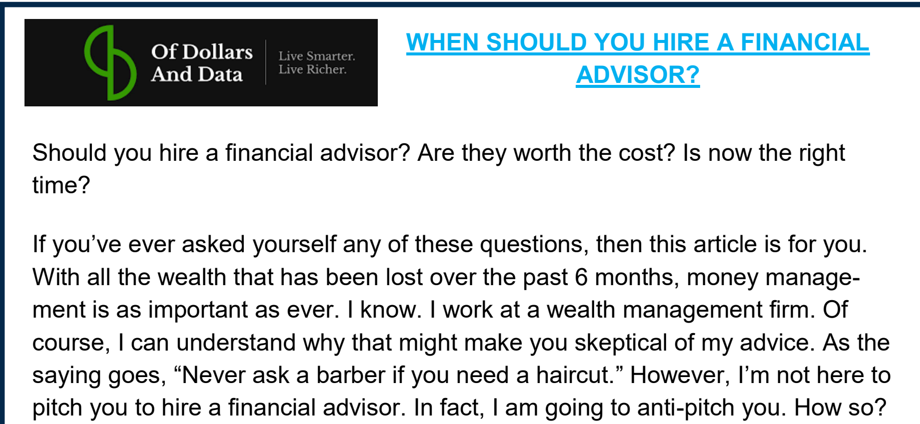
To Page 2

BANK OF CANADA INCREASES POLICY INTEREST RATE BY 100 BASIS POINTS, CONTINUES QUANTITATIVE TIGHTENING	WHY WEALTH MANAGERS ARE ASSESSING CLIENTS' PERSONALITIES	BLEAK OUTLOOK FOR HOUSEHOLD WEALTH: DESJARDINS
'UNCOMFORTABLY HIGH': WHAT ECONOMISTS SAY ABOUT THE CHANCE OF RECESSION	CONSIDER INFLATION WHEN DECIDING WHEN TO BEGIN CPP	CANADA'S UNEMPLOYMENT RATE HITS RECORD LOW, EVEN AS ECONOMY SHEDS JOBS
CANADIAN BANK EXPECTS SHORT-LIVED RECESSION IN 2023	THE WORST FIRST HALF EVER	FINANCIAL CONFIDENCE DWINDLES AMONG CANADIANS



BUSY AGENDA FOR FINANCE IN SECOND HALF OF 2022

The Department of Finance has a full plate as it works to advance proposals from Budget 2022, as well as previously announced initiatives, that weren't included in the budget implementation act that received royal assent last week.



WHEN SHOULD YOU HIRE A FINANCIAL ADVISOR?

Should you hire a financial advisor? Are they worth the cost? Is now the right time?

If you've ever asked yourself any of these questions, then this article is for you. With all the wealth that has been lost over the past 6 months, money management is as important as ever. I know. I work at a wealth management firm. Of course, I can understand why that might make you skeptical of my advice. As the saying goes, "Never ask a barber if you need a haircut." However, I'm not here to pitch you to hire a financial advisor. In fact, I am going to anti-pitch you. How so?

VIDEO AND PODCAST LINKS

RUSSIA SLIPS INTO HISTORIC DEFAULT AS SANCTIONS MUDDY NEXT STEPS	S&P 500 POSTS WORST FIRST HALF SINCE 1970, NASDAQ FALLS MORE THAN 1% TO END THE QUARTER	BLACKROCK, CRYPTO ETFs BLEED IN BIGGEST CANADIAN OUTFLOW IN YEARS

FINANCIAL CALCULATORS

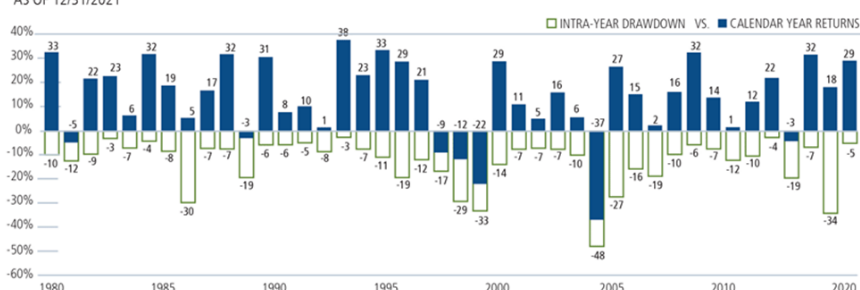
INVESTMENT GROWTH CALCULATOR	FIDELITY myPLAN SNAPSHOT	RRSP SAVINGS CALCULATOR
Find out how much your savings will grow over time by making regular investments	The Fidelity **myPlan** Snapshot enables you to get a glimpse into your retirement finances in seconds.	Estimate how much your registered retirement savings plan will be worth at retirement

EDITORIAL COMMENT - CONTINUED

My average client's age is somewhere in the mid-60s so they have likely been investing seriously for 40 years or so. This brings us back to the early 1980s.

Since 1980 there has been an intra-year, peak-to-trough market decline on the S&P 500 of around 14%, just over 50% of the time. (Source: J.P. Morgan Asset Management). So, on average, every other year the S&P 500 experiences a market decline, during the year, of about 14%. This should be enough information to deter anyone from ever investing money, that is until you look at the average compound rate of return of the S&P 500 since 1980. According to officaldata.org, the rate of return during this same period of time has been 11.47% per year.

If this isn't attractive enough, then think back to the early 1980s when inflation was near 14.5%. This is more than 20% higher than the average rate of return and yet since 1980 the S&P 500 returns have earned 8.16% per year more than the average inflation rate since 1980.



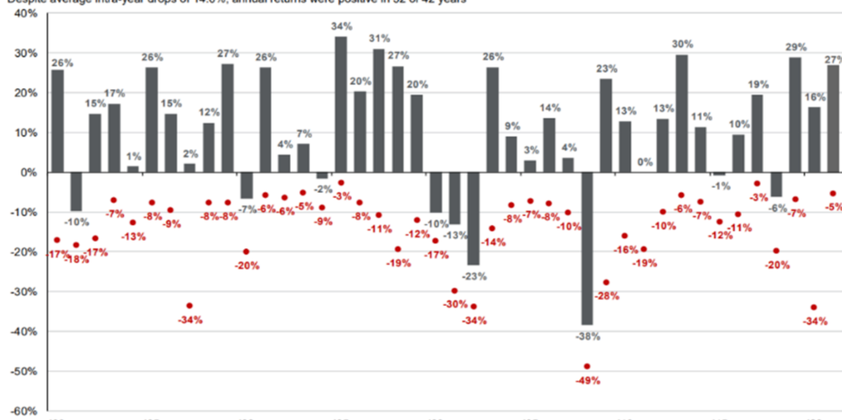
Past performance is no guarantee of future results. Source: Morningstar using daily total return data. The S&P 500 Index is generally considered representative of the U.S. stock market.

As of year-end 2021, in any year there was a pullback of 13% or more, there was a 62% chance that the index finished the year with positive returns.

Investors have also become accustomed to persistently below average inflation rates, especially over the last quarter century. Unfortunately, this phenomenon seems to be reversing as surges in inflation have pushed the level to 40-year highs. An interesting side note is that historically, stocks tend to underperform during inflationary periods, but they also tend to outperform after inflation peaks. This is a key bit of information because, if we can use experience as a guide, missing just a few days can have a significant impact on your portfolio by reducing long-term investment returns.

I have stated in the past, and will reiterate, "most of the time the best reaction is inaction", especially during periods of market volatility. Below are reasons why it is important to stay invested during adverse market conditions to avoid costly mistakes.

Previously, the S&P 500 has exhibited a correction every 362 calendar days on average (approximately once a year). It has been nearly 22 months since the index last



Source: J.P. Morgan Asset Management

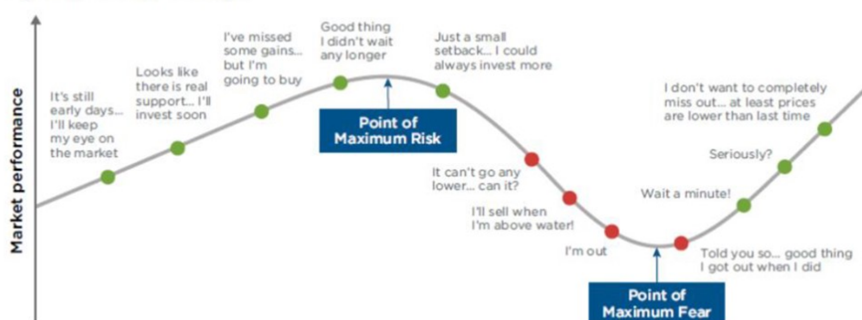
experienced a correction, making a minimal 10% correction long overdue.

The duration of a correction may also vary, but on average, lasts less than 4 months. The average S&P 500 correction lasts about 110 calendar days.

To Page 1 Disclaimer Continue Reading

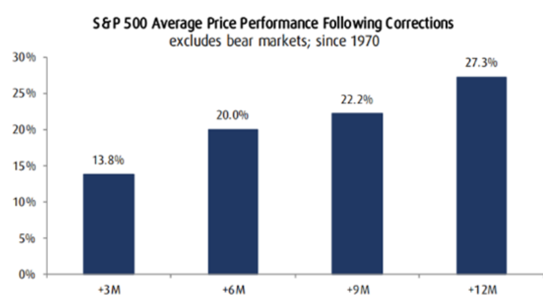
EDITORIAL COMMENT - CONTINUED

Historically, investors have had many reasons to worry about market volatility, which can wreak havoc on their emotional well-being. It is very easy to fall into the "worry trap" which often leads to over-reactionary responses and mistakes. The one true solution to this is to focus on maintaining a long-term perspective. This will work to any investors' advantage. Over time, markets have always recovered and grown.



Whoever said "patience is a virtue" must have been an investor who understood that markets do quite well despite drawdowns.

Many pundits have called a bottom to the most recent pullback. I'm not sure if they are right or not, but I am sure that even during a market rebound we will likely see more pullbacks. Now is the time to be patient. On average, the S&P 500 index has been up by nearly 14% in the subsequent three-month period following a non-bear market price correction, and up more than 27% twelve months later.

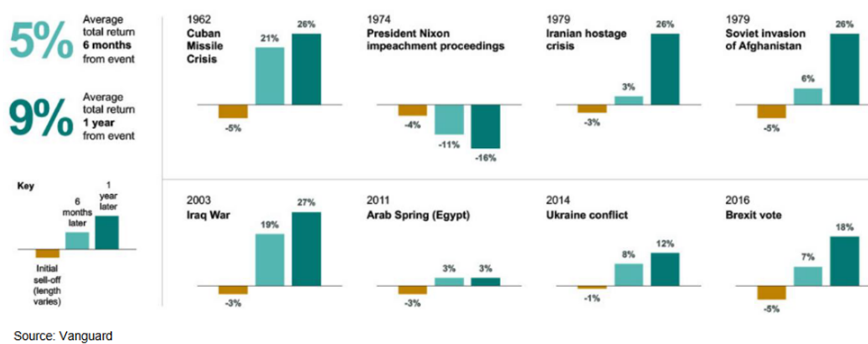


Many economists have stated that the Russian/ Ukraine was has been a contributing factor to the current selloff. It is not unusual for geopolitical events to cause sharp selloffs, but they are generally short lived as equity markets eventually recover and revert back to their long-term average returns over a 12-month period.

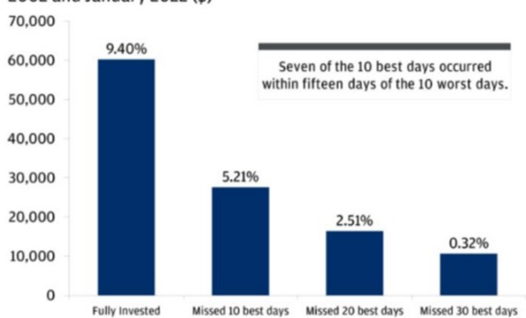
The following chart illustrates the aftermath of major negative events over the past 60 years, where on average, U.S. stocks posted a total return of 5% six months after an event and 9% one-year following a negative event.

Renowned investor Peter Lynch once stated: "Far more money has been lost by investors trying to anticipate corrections than lost in corrections themselves." This is a profound statement. Since short-term market movement is unpredictable, investors should absolutely avoid the impulse to time the market. Afterall it "time in the market, not timing the market" that has produced the greatest positive returns. The market's best days typically follow the largest drops meaning panic selling can lead to missed opportunities on the upside as demonstrated in the following chart.

EDITORIAL COMMENT - CONTINUED



Source: Vanguard



The average do-it-yourself investor has underperformed the markets as illustrated in the following chart. These investors tend to make too many investing decisions based on emotions and impulses. Despite healthy index returns over time, the average investor has underperformed most risk-based investments. The inability to outperform the market is the reason why most investors should invest in a portfolio with diverse asset classes that is designed to align with their financial goals and risk tolerance.

I have no idea how this year will end as no two market downturns are the same. However, financial markets have proven to be resilient, and the global economy has weathered and survived every type of "unprecedented" event it has experienced and moved forward from there. Without a doubt, opportunities exist in all economic environments for active long-term investors.

If I can leave you with one sentiment, it would be "DON'T PANIC!!". This drawdown may not be the same as any we have experienced in the past, but in some respects, it is no different than others. While seeing those negative returns on your last quarterly statement can be nerve-racking, we must not lose sight of the fact that building wealth takes time and that there is a considerable difference between temporary and permanent capital loss.

History has proven that we should remain focused on our long-term investment strategy and remain invested in high-quality mutual funds – those with successful long-term histories, employing sound investment strategies and run by top-quartile managers. These are the mutual funds that have remained resilient in all market cycles and outperformed their lower-quality peers over the long-term. Selling these mutual funds when they are "cheap" or at a time when they are trading at a discount would imply that we are "buying high and selling low", which is the opposite of what we promote at KPW Financial.

If you are concerned about the current market turbulence, reach out to our office for guidance.

Remember, having a well-developed financial plan and a professionally managed, diversified portfolio are the keys to a successful long-term investment strategy.

Myles Zyblock - CONTINUED

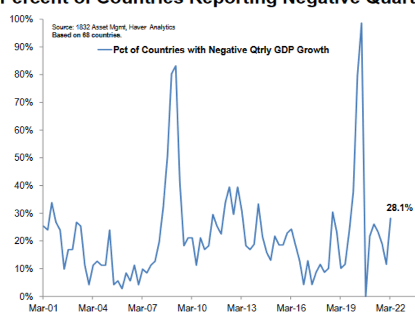
Yet the negative impact from renewed mobility restrictions on economic growth in most parts of the world were milder than those seen for previous waves, partly in response to the widespread take up in vaccines. The same could not be said about China given its zero-Covid policy. Their imposed lockdowns, in tandem with regulatory restrictions imposed on a wide range of industries, generated an air pocket in growth which then spilled out to the rest of the world.

Inflation became an even larger story than Covid as the calendar year progressed. Surging consumer prices pushed the global inflation rate beyond 11%, weighing heavily on households' purchasing power and sentiment. The inflationary backdrop was not helped by Russia's invasion of Ukraine which added complexity to already disrupted supply lines and placed more upward pressure on commodity prices.

Central banks were left with few options. The burgeoning inflation problem forced the world's monetary authorities to place their policy set interest rates on a trajectory that seemed to echo that last seen during the 1970s. As the first half ended, with several months of tighter financial conditions under our belt, there was evidence that investor concerns had started to shift from rising inflation and interest rates towards weakening economic and corporate earnings growth (see Chart of the Month).

The probability of recession has risen for most of the world's major economies. If there isn't a recession, then risky asset prices are probably attractive. Several equity market segments are down 60-80% while investor positioning and sentiment is hovering near multi-decade lows. If there is recession, then the period of turbulence is likely to extend. While the pages have closed on the year's first half, the story does not end here.

Chart of the Month: Percent of Countries Reporting Negative Quarterly GDP Growth



Dynamic Funds® *Invest with advice.*

World GDP growth estimates for 2022 tumbled after having started the year near 4.5%. The pace of these global economic downgrades seemed more worrying than their level of 3.2%, standing just shy of a 3.5% long-term average rate. While China and Brazil are expected to struggle relative to their historical norm, the war in eastern Europe might send Russia down the path of prolonged economic malaise.

Worries about the health of the global economy were rooted in more than rapidly changing forecasts. Based on a sample of 68 countries tracked, 28% of those reported negative quarterly GDP growth. While this is well below the 70%-plus readings seen during serious prior downturns like early 2020 or 2008, it is up from the 0% reading set in the second half of 2020.

Reservations started to bleed into the 2023 GDP growth profile. Analysts were looking for the global economy to expand by 3.2% and, while matching 2022's performance, this was down from the 3.6% estimate seen three months earlier. These same forecasters raised their odds of recession since the beginning of the year for several major economies including China (from 10% to 20%), United States (15% to 30%), Japan (20% to 25%), Eurozone (20% to 30%) and Canada (15% to 25%).

Global bond markets experienced a total return decay of 13.9% in the year's first six months, or the worst half-year performance since at least 1990 when the global aggregate bond benchmark came to be. This slide was the continuation of a bond bear market which began in January 2021 and has since erased a record 19.6% from market value.

The economic growth slowdown was clearly not on the minds of most bond investors. The significant underperformance of longer-dated government bonds suggests that the investment community had zeroed-in on inflation risk. And, this might not be too surprising given the fact that inflation was rising at a rapid clip almost everywhere one looked.

The first half of 2022 ended off with global consumer price inflation running at 11.5% y-o-y, with developed economy inflation at 7.4% and that for emerging economies touching 16%. The rapid rise in food and energy prices, coupled with supply-chain snarls from the lingering pandemic and war, played important roles in this ongoing story.

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Myles Zyblock - CONTINUED

The slide in the global equity market P/E multiple from 18.2 to 13.9 times earnings accounted for more than the entire drop in stock prices during the first half of 2022. Valuations were driven lower by the sharp rise in global inflation and related concerns about rising interest rates. Based on MSCI data, global earnings per share advanced by 5.4% during the first six months of the year.

While the global benchmark fell by 21%, there were some notable differences in performance across the major regions. The world's most expensive market, the U.S., experienced the sharpest price decline while less expensive markets (e.g., Japan), or those with greater direct exposure to commodities (e.g., Canada), fared better.

The dispersion in returns across the regions offered little comfort to global equity investors. The MSCI All Country World Index had its worst opening six months to a year since the equity benchmark was created in 1990. The U.S. benchmark suffered its steepest percentage drop at the halfway point since 1970. With a weighting of 61% to the U.S., the global equity benchmark remained highly dependent on America's stock market success.

It was extremely difficult to find shelter from the equity storm during the first half of 2022 given broad-based price declines and implied volatility spending a lot of time in the elevated range of between 20 to 40. Yield, stability, and value offered some relative protection but even at a 12-14% decline, these styles offered an incomplete shield. Although, they still fell by about half as much as the drops experienced by growth, quality, and momentum.

Investors were equally hard pressed to find money making opportunities at a sector level. Technology, Consumer Discretionary, Communication Services, and Industrials all declined by more than the 20.9% recorded by the benchmark. Ten of the eleven sectors were down in the first half of 2020. That's tough. Energy was the only sector in the green, generating a first-half return of 12.5%.

The first half of 2022 exemplifies a scarcity of return opportunity. Unless one had held the lion's share of an equity portfolio in Energy, the last six months truly identifies with a difficult investment environment. To place this into perspective, Energy today comprises roughly 5.2% of the global equity benchmark.

The Goldman Sachs Commodity Index marked a good first half. Depressed inventories, ongoing global growth, and supply chain disruptions offered important price tailwinds that carried the index higher into the second quarter. Since that time, the benchmark index has declined by 13% while leaving it up a healthy 26% for the first half of the year and almost +40% versus the same period a year earlier.

Energy was the star performer, with crude oil and natural gas prices up by more than 40% as the first half ended. Agricultural commodities represented a distant second, with wheat, orange juice, and hogs rallying by between 15% and 26%. It's no wonder why grocery bills have gone up. Pulling up the rear have been several of the more economically levered industrial commodities. These include lead, copper, and aluminum which were down by between 13% and 18% to the end of June. While inventories remained low for most industrial commodities, price weakness crept in as worries about global end market demand moved to the fore in the second quarter of the year.

The Canadian dollar, on a trade-weighted basis, wiggled a marginal 2% higher on a trade-weighted basis during the first half of 2022. Yet, it has outperformed the crosses of most of its trading partners. It appreciated by anywhere from 7% against the euro to 16% against the Japanese yen. Its only loss among the majors was against the U.S. dollar, representing by far its most important trading partner and depreciating by a modest 1.6%.

There were two major reasons behind the loonie's broad-based strength. The first was the Bank of Canada's action to raise the overnight lending rate from 0.25% to 1.5% and to telegraph that additional interest rate increases were coming. This helped to tilt the expected interest rate spread in CAD's favor. The second was the moonshot in oil prices, a positive boost to an economy with the fourth largest supply of proven oil reserves in the world.

The Canadian dollar is a member of the more economically leveraged developed market currencies given the economy's reliance on commodities and foreign trade. This has undoubtedly tilted the currency towards weakness against the U.S. dollar, a safe-haven amongst global currency investors.

Over the past 25 years, investors grew accustomed to the idea that bonds would rally as stocks faltered and vice versa. That was surely not the case during the first half of 2022. Stocks fell, bonds dropped, and even precious metals modestly declined in value. The only asset that saved the portfolio was commodities and even within that asset grouping it was largely energy and select agricultural commodities that managed to gain ground.
This historically unusual dynamic began as an inflation shock that morphed into an

interest rate

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Myles Zyblock - CONTINUED

This historically unusual dynamic began as an inflation shock that morphed into an interest rate shock. Overvalued assets were punished. As central banks continued to tighten policy settings, the worry shifted from discounting future fundamentals to the fundamentals themselves.

The next leg for asset price dynamics seems to depend on the extent to which economic activity moderates. A non-recessionary environment suggests that there is significant upside in asset prices from here, whereas a recession probably extends the period of asset price turbulence. It's been an incredibly difficult first half of 2022 for investors.

Personal Medical Insurance - CONTINUED

We would like to see you avoid having to go into your savings or investments, asking family members for financial support or paying out of pocket to cover health care costs in the event of major health issues. We would rather have you turn to personal health insurance. Personal health insurance lowers the risk of unmanageable expenses as a result of an illness or accident. Personal health insurance helps you pay for what your healthcare plan or provincial insurance does not.

Having personal health insurance in place allows you to be reimbursed for eligible health expenses. Some of these expenses include dental, prescription drugs, emergency medical services, message therapy, physiotherapy, medical equipment and other health-care expenses that are not fully covered or not covered at all by your provincial healthcare plan.

You may consider getting health insurance if your employer does not provide this benefit or you may want to top up the already in place coverage. If you are self-employed, a contract worker or soon to be retired individual, a personal health-care benefit plan will give you a piece of mind.

Health insurance plans cover different areas of care. For example; prescription drugs, hospital stays, dental expenses, support for disabilities, serious illnesses and long-term care are just some of the expenses that a health insurance policy can also cover.

As we all know and have experienced in one way or another, life can throw us curve balls. Fortunately, medical care is always evolving and improving. New treatments and medications are contributing to helping people get healthier and live longer. A critical illness plan provides you financial support while you are recuperating from a serious illness. Critical illness is commonly included in a well-structured financial plan and may provide you financial support while you are focusing on your recovery.

An accident leaving you disabled impacts your life and affects your income. Not being able to work for an extended time while recovering could leave you without financial resources for essentials. Disability insurance provides income protection when a long-term disability prevents you from working. This insurance is especially important if you are self employed.

Lastly, but no less important, is long-term care insurance. Unfortunately, people don’t look at long term care closely enough. The proper coverage is important when chronic physical or cognitive skills deteriorate and much needed assistance with daily living is required. A variation of services may be required that will help meet the medical and non-medical needs of people who cannot care for themselves.

Here at Kleinburg Private Wealth we have the privilege to work with many insurance providers so that we can offer you a customized plan to suit your personal needs. Together we tailor the coverage you require and want with your preferred budget in mind. Having your insurance in place is just as important as taking care of your portfolio. I have briefly touched on the different insurance needs that will protect you and your loved ones. Be sure to take the time to reach out to your advisor to review what you and your family would require to sustaining your lifestyle in the event of a health issue. Not having to depend on family or friends in these cases speaks volumes. Life is a journey, lets live it well no matter what comes our way.We would like to see you avoid having to go into your savings or investments, asking family members for financial support or paying out of pocket to cover health care costs in the event of major health issues. We would rather have you turn to personal health insurance. Personal health insurance lowers the risk of unmanageable expenses as a result of an illness or accident. Personal health insurance helps you pay for what your healthcare plan or provincial insurance does not.

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Mortgage Mullings —Continued

As always, I will remain as impartial as possible while breaking it down from a planner's perspective. At the end of the day, you must do what is right for you and acknowledge that there is no one size fits all recommendation. The fact of the matter is there are common mortgage mistakes that are made that are not only costly but also impede on reaching financial goals. My goal here is to shed some light on these common errors and provide some general guidance.

When shopping for a mortgage, people tend to get wrapped up in promotional interest rates or fixate on trying to get the largest loan possible. However, this tends to lead to overlooking certain critical components such as payments, prepayment options, penalties, and preparing for the mortgage requirements.

The first step in preparing for the mortgage application process needs to be understanding mortgage terminology in order to understand the various types of mortgages available. You may save a significant amount of money by making an informed decision and by choosing a mortgage that is suited to your needs. And because of the typical weight of most people's mortgages, it is an excellent way of assuring you also reach your long-term financial goals.

You also shouldn't prioritize the rate over payments. It's important to understand, especially in the current environment where some may find themselves racing to the finish to beat the next rate hike, that getting the lowest rate possible is not the be all and end all. There are instances where lower rate mortgages, although important, may come with the expense of flexibility. There is more to the story than the rate, so be mindful of the other variables that a mortgage offers. It is wise to seek out mortgage solutions that offer the ability to adapt to your ever-changing needs.

Another prudent step in the process is to ensure preapproval prior to putting in an offer. This may sound obvious but there are some who may not feel this is necessary, when in fact, it is. Mortgage preapprovals help eliminate guess work, disappointment and allow any issues to be resolved early in the buying process so you can focus on what's important. It is also advisable to understand the variables surrounding down payments as well as mortgage insurance and what it means for you.

If your down payment is less than 20% of the purchase price, you are required to purchase mortgage default insurance (offered by the CMHC). Mortgage default insurance is added to your mortgage balance and can add a significant amount of interest to the amount you must repay.

Keep in mind that there are some instances where you are required to put down more than 20% down payment such as when buying vacant land. This is not to be confused with mortgage insurance (offered by the lender) that covers the balance of the mortgage should one of the owners die and is always optional. As the rules and regulations are constantly changing, it's recommended that you do your research to avoid substantial mortgage insurance costs.

Another important consideration requiring your attention is understanding the prepayment options and mortgage penalties. One of the most costly and common mortgage mistakes is not knowing the prepayment options and features of a mortgage. Most mortgages typically have specific prepayment terms, which allow you to increase regular payments by 15-25% once per year, and/or make a lump-sum payment of 15-25% of your original mortgage amount once per year.

Allowing for prepayments enables borrowers to pay down their mortgage faster, but the specific prepayment terms vary from lender to lender, so it's important to understand the available options. There are typically penalties/charges associated with prepayments beyond the allowable limit, depending on the terms of the mortgage, balance, remaining term, interest rate and so on. Again, you want to be in the know beforehand to avoid any costly surprises.

The next piece of advice may be one of the hardest to adhere to, which is to consider long term goals when applying for a mortgage. Of course, no one has a crystal ball but it's important to try and select a mortgage that fits both your short- and long-term time horizon when possible, to avoid getting locked into something that is not consistent with your future. More specifically, you want to consider major life changes such as raising a family (i.e. longer amortization period with lower payments to allow for time off work) or the possibility of an inheritance (i.e. open short term mortgage) and thus select a mortgage customized to your own needs.

You also want to be sure to take advantage of some of the numerous Canadian Federal Government initiatives for homebuyers. Some of which I have touched on in the past include: The Homebuyers' Plan, First-Time Homebuyer Incentive, GST/HST New Housing Rebate, and the Home Buyer's Amount, which can all work to save your bottom line.

Finally, one of the realizations that homebuyers need to come to is that savings don't end at the down payment. Overlooking closing costs can be a major financial setback.

Mortgage Mullings —Continued

These include the fees, charges, and taxes that accompany home purchases and mortgage transactions, and include but are not limited to the home appraisal, inspection, land transfer tax (depends on the purchase price and location), legal fees, and GST/HST on new home purchases.

As I mentioned, you want to make sure you fully understand what you are getting yourself into. The buying process can be daunting, and in all the excitement people can be tempted to sign on the dotted line without fully understanding all clauses and terms, and in some cases as I have seen, misinformation by people in positions of trust.

Decisions made today could ensure you save greatly on overall mortgage costs helping you reach financial freedom years sooner. Familiarizing yourself with the process of obtaining a mortgage and understanding the costs and benefits of different mortgages and how they fit into your full financial plan helps to ensure you make the best choices for your financial future.

RRSPs, RRIFs, And The Order Of Asset Withdrawal?—Continued

Then there are rental properties, spousal support payments, annuities, and even part-time work. Any remaining income needs will often come from personal savings, RRSPs/RRIFs, TFSAs, and non-registered (taxable) investment accounts.

With so many sources of income, new questions arise such as: which sources to draw from first; which accounts should be drained; how do we maximize tax efficiency? It does matter how clients draw down from their accounts and this can be a big dilemma for people with multiple sources of income. This can be especially true for individuals with large RRSP/RRIF accounts.

RRSPs are great vehicles for savings, allowing Canadians to build up wealth on a tax-deferred basis during working years. (RRSPs become RRIFs when we start taking income from them). However, at retirement, withdrawing money from a RRSP/RRIF means every single dollar is included as taxable income. This too can be deferred by waiting until 72 to take income and by taking only the minimum mandatory amount. Unfortunately, this can expose individuals or their spouses to a large tax liability on death. This is because RRSP/RRIF assets are fully taxable at death, and with most provinces having a 50% marginal tax rate, it is likely that half of the value of the RRSP/RRIF will be lost to taxes. The only way to avoid this is to leave an RRSP/RRIF to a surviving spouse. Thus, at the center of the 'order of asset withdrawal' decision is determining a suitable RRSP/RRIF exit strategy.

There are three broader withdrawal strategies to consider that will give the RRSP/RRIF a different priority of withdrawal.

First is the RRSP/RRIF accelerated drawdown. This strategy minimizes taxes to the estate by giving RRSP/RRIF withdrawals the highest priority. The goal here is to completely deplete the asset by the assumed mortality age. In this strategy, we would take excess income from the RRSP/RRIF (usually over and above one's income needs when possible) and redirect it to things like a TFSA, non-registered account, or life insurance premiums. Under this strategy a person will want to defer CPP/OAS to the latest age and place RRSP/RRIF withdrawals as the first income source to cover basic needs. This strategy works best with an individual who may be in a lower tax bracket such as a retiree. With this strategy you'll pay taxes now while alive, but the tax impact on the estate will be far lower with a possibility of zero dollars paid.

Second is the hybrid strategy. This strategy gives a little less priority to the RRSP/RRIF withdrawal. Instead, we use non-registered investments to fund income needs first; however, individuals will still take income from the RRSP/RRIF that is above the mandatory minimum. This strategy will try to reduce the amount in the RRSP/RRIF by the assumed mortality age, but it will likely not deplete it. Under this scenario, some taxes will be paid both while alive and when the RRSP/RRIF passes to the estate; however, the cost is spread out through both stages.

Third is the maximum tax deferral strategy. This withdrawal strategy gives RRSPs/RRIFs the lowest priority by seeking maximum tax deferral of the RRSP/RRIF asset. Any payments taken from this account

will be mandatory minimum payments set at the younger spouse's age (using a younger spouse's age will lower the mandatory minimum payout amount resulting in less taxable income). The goal of this strategy is to maximize the RRSP/RRIF asset that will be left to the estate. In this way, taxes will only be paid at the death of the surviving spouse. This strategy works best for individuals with large life insurance policies that can cover any estate tax liabilities created by a large RRSP/RRIF. In this strategy, the RRSP/RRIF beneficiary is important since it will determine whether the estate, surviving spouse, financially dependant child, or a child receiving the disability tax credit will be taxed.

The order of asset withdrawal will vary depending on the needs and wants of the individual. Having examined this for many of our own clients, we tend to find the hybrid strategy results in the greatest net estate value after taxes paid. In one case study, under the maximum tax deferral strategy this client had a $1.524 million net estate value; however, under the hybrid strategy this same client had a $1.609 million net estate value for a difference of almost $85,000. This won't be the case for all individuals which is why a proper financial plan is needed to help determine the best order of withdrawal.

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Discuss the risks associated with leveraged mutual fund purchased with an investment funds advisor before investing. Purchases are subject to suitability requirements. Using borrowed money to finance the purchase of securities involves greater risk than a purchase using cash resources only. If you borrow money to purchase securities, your responsibility to repay the loan and pay interest as required by its terms remains the same if the value of the securities purchased declines.

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RETURN TO PAGE 1