Kleinburg PRIVATE WEALTH

Carte WEALTH MANAGEMENT INC.

KPW LIFE PLAN—IMAGINE YOUR FUTURE

VOL. 11, ISSUE 9

SEP 2022

"Building wealth isn't rocket science, it is simple, but it is not easy." - **Sam Sivarajan**

Sergio Simone
EDITORIAL COMMENT

Kristina De Souza, CFP
PLANNING FOR A LOVED ONE WITH A DISABILITY

Ryan Simone, CFP, CLU, CHS
ARE WE READY FOR A NORMAL RECESSION

EDITORIAL COMMENT

Sergio Simone

If I had to describe 2022 in one word, it would be "TURBULENT"! Do I expect it will it remain this way over the next year. More than likely!

Since the rollercoaster ride is likely to continue for some time, I thought I would bring the anxiety levels down somewhat by getting a little analytical and show, in a series of graphs, why the forecasts may actually be better than the expectations.

North American equity markets have both posted year-to-date negative results, while the ever-volatile energy sector has emerged as the key winner. The energy sector has dominated the TSX makeup during the year which is the primary reason it has outperformed the S&P 500.

PLANNING FOR A LOVED ONE WITH A DISABILITY

Kristina De Souza, CFP

Another school year is underway, and it serves as a reminder that knowledge is power. In the context of financial matters, having a greater knowledge of the benefits available to you can ultimately lead to more money in your pocket. Currently, one in eight Canadian families have a member with a disability. It's disheartening to know that very few of these families who qualify, perhaps only one in five, are opening a Registered Disability Savings Plan (RDSP) that could result in greater financial stability for their loved one down the road.

An RDSP is a government registered savings plan that helps Canadians with disabilities and their families save for long-term financial needs by growing their savings on a tax-deferred basis, much like an RRSP.

ARE WE READY FOR A NORMAL RECESSION?

Ryan Simone,
CFP, CLU, CHS

According to the National Bureau of Economic Research (NBER) recession is defined as "a significant decline in economic activity that is spread across the economy and that lasts more than a few months". As far as definitions go, it leaves a lot of questions like what constitutes a significant decline? The answer is that it depends. Recessions are all a bit different, so a committee of academics will ultimately decide whether a recession took place after the fact. The NBER quoted above is one such committee in the United States.

Investopedia states that: "Since the Industrial Revolution, economic growth has been the rule in most countries, and contractions a recurring exception to that rule. Recessions are the relatively brief corrective phase of the business cycle; they often address the economic imbalances engendered by the preceding expansion, clearing the way for growth to resume." (https://www.investopedia.com/terms/r/recession.asp)

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AUG 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."

Meet Your Award Winning KPW Team

Sergio Simone

Kristina de Souza

Ryan Simone

Rosy Ragno

Roberta Di Petta

Katrina Van Rhee

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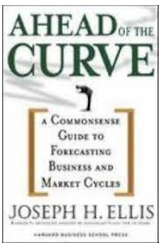
VOL. 11, ISSUE 9 SEP 2022

To Page 1 To Links Page

BOOK OF THE MONTH

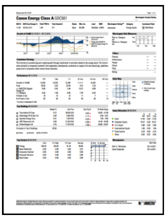


AHEAD OF THE CURVE

- by Joseph Ellis

Economic and stock market cycles affect companies in every industry. Unfortunately, a confusing array of anecdotal and conflicting indicators often renders it impossible for managers and investors to see where the economy is heading in time to take corrective action. Ellis unveils a new forecasting method to help managers and investors understand and predict the economic cycles that control their businesses and financial fates. Ellis argues that the problem with current forecasting models lies not in the data, but rather in the lack of a clear framework for putting the data in context and reading it correctly.

FUND OF THE MONTH

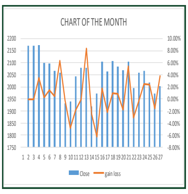


DYNAMIC NORTH AMERICAN DIVIDEND PRIVATE POOL

The Pool is constructed to offer a well-diversified, concentrated portfolio that is differentiated from the benchmark. The Pool will focus on dividend paying equity securities of businesses primarily located in North America, without restriction to sector or market capitalization.

This is a Low to Medium risk fund.

CHART OF THE MONTH



WE'VE EXPERIENCED A RARE PERIOD OF PERFORMANCE FOR STOCKS AND BONDS

Since 1950, we have had just 9 instances where stocks and bonds were both down over half-year periods.

The historic sell-off in bonds has moved yields to more sustainable levels.

Similar bond corrections have been followed by strong returns.

BLOG OF THE MONTH

FALLING GAS PRICES IMPLY FURTHER INFLATION RELIEF

Retail gasoline prices in the United States are poised to continue their recent decline as the summer driving season ends and households fall back into more traditional schedules.

The average retail gasoline price has declined to $3.78 per gallon from a peak of $5.01 on June 13—a 21.2% drop—and wholesale futures point to sustained declines ahead.

VOL. 11, ISSUE 9 SEP 2022

PRIVATE WEALTH

INFORMATION AND SOLUTIONS FOR HIGH NET WORTH INVESTORS

FINANCEMONTHLY

ESTATE PLANNING TIPS FOR HNWI DURING A RECESSION

To hear about his top Estate Planning tips for high-net-worth individuals (HNWI), Finance Monthly reached out to Tom Rapp - the Founder of Greenberg & Rapp Financial Group and Eagle Rock Wealth Management.

Tom specializes in tax-advantaged solutions for high-net-worth individuals and his favorite part of the job is crafting unique strategies for closely-held business owners to maximise their business and legacy.

Sun Life

LIFE INSURANCE FOR THE WEALTHY

There are grains of truth to many myths, but others simply don't stand the test of time. For example, years ago parents would tell their kids to dress warmly so they wouldn't catch a cold. But medical professionals busted that myth when they discovered that cold air doesn't make you sick.

There's a persistent myth about life insurance too: "the wealthier you are, the less you need it." Like many other generally accepted "truths", this one appears logical on the surface. But dig a little deeper and you'll find a different story.

RBC

TOP 10 WEALTH MANAGEMENT STRATEGIES USING INSURANCE

Insurance strategies have gone from being mostly about security to being seen as extremely flexible and versatile tools that may offer immediate tax, investment and income uses for you, your family and your business. While the protection element of life insurance remains of critical importance, modern insurance policies combine both protection and investment attributes and can be used to provide policyholders with a variety of planning strategies and options for now and later.

Forbes

ESTATE PLANNING DURING A CRISIS

Every day a new crisis – first the pandemic, then the riots, now the invasion of Ukraine. It's enough to make any sane person anxious. Estate planners are accustomed to discussing two major sources of anxiety with their clients: death and taxes. Planning ahead for these eventualities helps to reduce the fear and anxiety a crisis can create, knowing that while you can't control the future, you're prepared for it.

VOL. 11, ISSUE 9

SEP 2022

CORPORATE CULTURE

5 STEPS TO STRENGTHEN YOUR BUSINESS DURING A DOWNWARD ECONOMIC CYCLE

Canadian economists are predicting the country is headed for a mild recession, which can affect consumer buying power, the cost of borrowing and rates of employment. Learn what this environment might mean for you and how you can fortify your business in the face of a challenging economy.

According to RBC Economics, Canada is headed for a mild recession. With the World Bank cutting its global growth forecast to nearly 3 per cent for this year and next — and the expectation that Canada's key trading partners may be in recession next year — experts predict it will be difficult for Canada to avoid its own downturn.

7 BENEFITS THAT WILL HELP YOU ATTRACT (AND RETAIN) TOP TALENT

The question of how to improve employee retention is not easy to answer, but companies should resist offering perks like free iPhones to get people through the door. These types of benefits might be exciting at first, but unfortunately, they probably won't provide lasting value for employees and their families, and they certainly won't help you improve workplace retention long term.

Here are seven benefits that will help you attract (and retain) the right employees.

SHARE STRUCTURE AND SHAREHOLDERS

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

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

WHY AN ECONOMIC DOWNTURN IS THE BEST TIME TO STRENGTHEN YOUR BUSINESS

The latest data is in and it's official: discretionary spending is being drastically cut as consumers brace for more rate rises and inflation continues to bite. Meanwhile, ecommerce platforms are faltering as weak consumer spending impacts bottom lines.

On top of supply chain disruptions, staff shortages and a new wave of Omicron variants, conditions are becoming increasingly challenging for businesses, with the worst possibly still to come.

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VOL. 11, ISSUE 9 SEP 2022

FUND MANAGER COMMENTARY

JEFF MOORE
FIDELITY INVESTMENTS

KRISTINA HOOPER
INVESCO

TEJ RAI
IA INVESTMENT MANAGEMENT INC.

PATRICK BLAIS
MANULIFE INVESTMENT MANAGEMENT

Jeff Moore, Portfolio Manager

Fidelity Investments

Fixed Income Perspectives

Navigating bond markets with too short an investment horizon risks portfolio whipsaws and dealing with fierce, sometimes counterintuitive, market moves. For now, our take remains to hold off on bold asset allocation moves in terms of duration and risk sectors. However, we are certainly ready to lean in and pick away at the bond market.

Kristina Hooper, Chief Global Market Strategist

Invesco

Are We Headed For An Economic Slowdown?

A recession is becoming more likely in Canada.

Raising interest rates quickly increases the likelihood of a recession — however "frontloading" rate hikes to control inflation could reduce the chance.

Tej Rai, Senior V.P., Asset Allocation

IA Investment Management Inc.

A Differentiated Approach To Challenging Markets

The way to understand market movement and to understand market behaviour and psychology is to understand where the consensus view is. And in fact it's not just important for understanding market dynamics, it's really important for the success of an active management program.

Patrick Blais, Head of Fundamental Equity Team, Portfolio Manager

Manulife Investments

August Manager Update

After losing ground early in the month, Canada's stock market recovered to finish July with a solid gain. Global equities, in general, rallied on hopes that slowing economic growth would prompt the U.S. Federal Reserve and other major central banks to pivot to a more dovish policy stance by year-end. But while Canada's equity market registered a gain in July, it trailed many of its developed-market peers. The S&P/TSX gained 4.4% on a price return basis during the month, well behind the solid 8.6% (CAD) return for the S&P 500, the latter rallying the most in a single month since November 2020.

VOL. 11, ISSUE 9 SEP 2022

To Page 1

LINKS

To Page 2

BANKS STAND FIRM ON CUTTING PRODUCT SHELVES

WOMEN WHO STAY SINGLE AND DON'T HAVE KIDS ARE GETTING RICHER

ANOTHER RUBUST MONTH AS EMPLOYMENT INCREASES BY 315,000

IS NOW A BAD TIME TO RETIRE?

LIZ TRUSS BECOMES UK PRIME MINISTER AFTER MEETING QUEEN AT BALMORAL

EUROPE IS HEADING FOR RECESSION. HOW BAD WILL IT BE?

AMERICAN HOUSEHOLD DEBT HITS RECORD $16.2 TRILLION AS MORTGAGES, CREDIT CARD SPENDING SWELLS

INFLATION TICKS DOWN FOR A CHANGE IN OECD COUNTRIES

BANK OF CANADA RAISES INTEREST RATE BY 0.75 PERCENTAGE POINT

Bloomberg

THE FED'S PAST CRISES HOLD SECRETS TO TACKLING FUTURE RECESSIONS

Executors are responsible for a variety of tasks ranging from funeral arrangements to filing income tax returns with the Canada Revenue Agency (CRA), to the final distribution of estate assets.

Government of Canada Gouvernement du Canada

Canada

DESIGN OF THE TAX-FREE FIRST HOME SAVINGS ACCOUNT

In Budget 2022, the government proposed the introduction of the Tax-Free First Home Savings Account (FHSA). This new registered plan would give prospective first-time home buyers the ability to save $40,000 on a tax-free basis. Like a Registered Retirement Savings Plan (RRSP), contributions would be tax-deductible, and withdrawals to purchase a first home—including from investment income—would be non-taxable, like a Tax-Free Savings Account (TFSA).

Budget 2022 announced the key design features of the FHSA, including an $8,000 annual contribution limit in addition to a $40,000 lifetime contribution limit.

VIDEO AND PODCAST LINKS

GLOBAL BONDS: FIRST BEAR MARKET IN OVER 30 YEARS

CHINA'S ECONOMY TAKES HIT FROM GLOBAL SLOWDOWN AS EXPORTS WEAKEN

WORLDWIDE BIG PICTURE VIEWS AND VOLATILITY RISK

FINANCIAL CALCULATORS

INVESTMENT GROWTH CALCULATOR

Find out how much your savings will grow over time by making regular investments

FIDELITY myPLAN SNAPSHOT

The Fidelity **myPlan** Snapshot enables you to get a glimpse into your retirement finances in seconds.

RRSP SAVINGS CALCULATOR

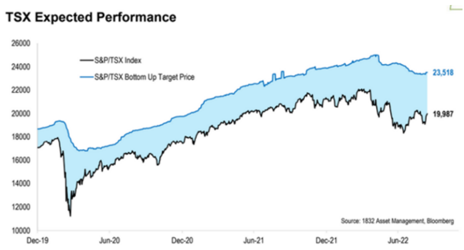
Estimate how much your registered retirement savings plan will be worth at retirement

EDITORIAL COMMENT - CONTINUED

The following chart shows that the disparity has been quite significant as the TSX has outperformed the S&P 500 by almost 9%!

Despite the turbulent markets in Canada and the U.S., equity analysts have been displaying bullish sentiments. Over the next year, earnings are projected to increase by more than 10%. This is very encouraging as the analyst community predictions are looking good for equity investors. When their stock price predictions are aggregated to the index level, they suggest a 15.7% price return for the S&P 500 and a 17.9% price return for the energy weighted TSX.

This chart shows that stock analysts covering the TSX companies are very optimistic looking ahead. As I write this, 75% of the underlying stocks that make up the index have a buy rating attached to them.



The science suggests that by aggregating the analysts' price targets for each underlying stock component in the TSX, and weighting those price targets by the stock's market capitalization weight, they were able to ascertain a projected return for the index. Based on their inputs, the TSX is projected to have a 17.9% return potential.

Although the forecasted returns for the S&P 500 are not as bullish as its TSX counterpart, analysts are still projecting a return of 15.7% over the next year.

As a professed forecasting junkie, I am always on the lookout for reliable indicators to give me some insight into future financial market performance. Some indicators are obvious like, stock prices, dividend yields, or bond yields. There are also indicators that reference multiple data points. One of these indicators is the Citigroup Economic Surprise Index (CESI), which tracks whether a core set of economic data has been coming in under expectations, at expectations, or over expectations. The index is a reflection of how economic indicators are coming in relative to investment analysts' expectations. For much of the last two years the index has been negative. Recently it has moved back to the neutral line which suggests a balance of negative versus positive data surprises.

Consumer sentiment numbers are also offering some positive outlooks as they have risen to their highest level since May. September's consumer sentiment improved as inflation concerns eased according to the University of Michigan's index. It rose to 59.5. Although the number seems to be on the rise, we are still a long way from the 90+ levels achieved prior to the pandemic.

What is encouraging when reading the data is that the majority of the improvement came from the lower third of incomes, which have been under the most stress as inflation and higher prices are eating into their savings and spending for essentials.

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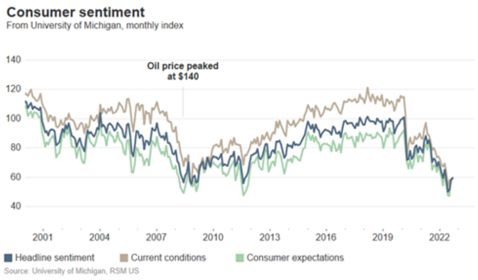
EDITORIAL COMMENT - CONTINUED



What makes this especially appealing is that the Federal Reserve uses the University of Michigan's data as one of its key gauges of inflation expectations.

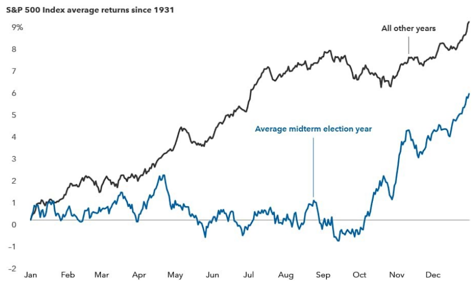
Although sentiment improved across all age groups, the largest increase came in the 18-44 group, rising by 7.6% on the month.

Fed Chairman, Jerome Powell, laid his cards on the table at the August Jackson Hole, meeting. Powell proveded some much needed clarity to investors. Interest rate volatility was extraordinarily high over the summer, with market expectations flipping back and forth between the extremes of a shock and awe rate increase approach to a Fed pivot with more dovish undertones.

The Fed is still determined to achieve the proverbial "soft landing" so it is trying to orchestrate an orderly tightening of financial conditions that will curb inflation withouth crashing the economy. The Fed believes it can accomplish this by bringing rates up slightly above the neutral line and keep them there for a while.

This is not an easy task as investor reaction is often unpredictable. For example, higher rates in August caused some sticker shock resulting in a market slide in the final days of the month. If Powell sticks to modest increases, we could see risk assets benefit in the medium term from this transparent policy. Clarity in the Fed's intentions could also calm the markets while increasing credibiity in the Fed. This may be just what the market ordered as it will reduce the crazy volatility.

With all the craziness going on around the world, I thought the upcoming U.S. midterm elections were at risk of becoming an afterthought in investors' minds. With six weeks left until the election, it seems the election is coming back on our radar screens. Let's shed a little light on the historical impact of midterm elections on the equity markets.



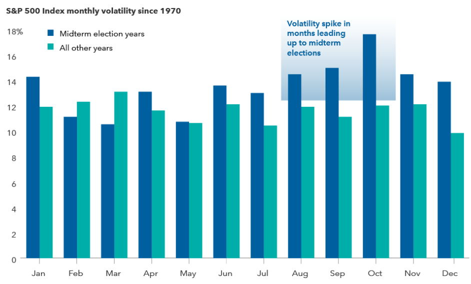
This chart indicates that market returns tend to be muted until later in midterm years and that since 1931 the path of stocks throughout midterm election years differs noticeably compared to all other years.

Since markets tend to trend upwards over long periods of time, the average stock price movement during an average year should steadily rise. The data shows that this is not the case in midterm election years when stocks often have little forward movement until shortly before the election.

The simple reason for this may be that markets don't like uncertainty! Early in the year, there is less certainty about an election's outcome and impact, but as the year progresses and an outcome is more determinable, markets have tended to rally in the weeks before an election and have continued to rise after the polls close.

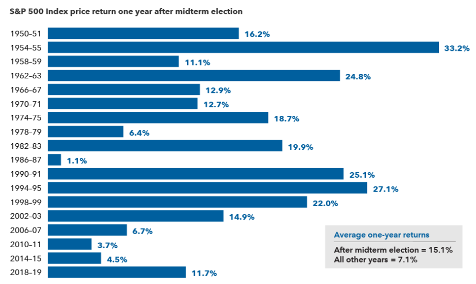
I caution investors to not take this trend as gospel. Despite the uncertainty, investors should not stay on the sidelines or try to time the market. No one has a crystal ball and the path that stocks take varies greatly every election cycle. The only certainty is that the long-term trend of markets has been positive.

Another historical observation is that midterm election years are prone to excess volatility. Candidates often point out the flaws in the nation and what needs to be done to fix these problems. Most of the messaging is negative which creates more uncertainty for investors. It is no surprise that market volatility is higher in midterm election years, especially in the weeks leading up to Election Day. Over the last 50 years, midterm years have a median standard deviation of returns of nearly 16%, compared to 13% for all other years.



EDITORIAL COMMENT - CONTINUED

What might we expect post-midterm elections. The following chart shows that market returns following midterm elections have generally been strong.



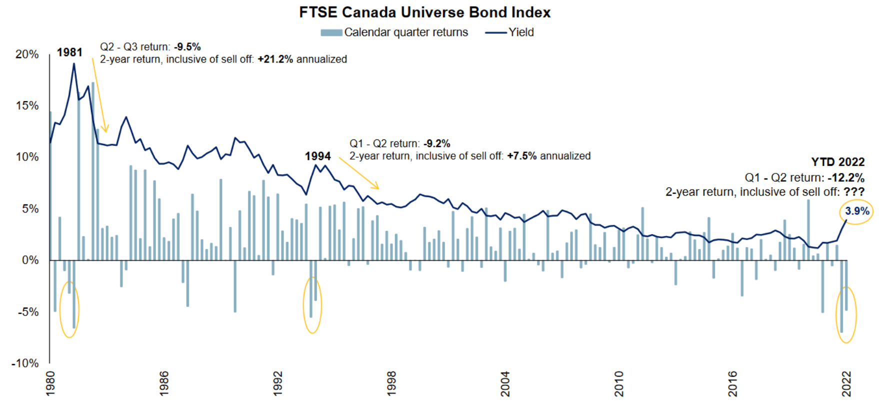
This may be the silver lining we have been hoping for. Markets tend to rebound strongly in subsequent months, and the rally that has often started before Election Day hasn't been typical for the full year following the election cycle, Since 1950, the average one-year return following a midterm election was 15%. That's more than twice the return of all other years during a similar period.

Since 1933, markets have averaged double-digit returns in all years that a single party controlled the White House and both chambers of Congress. When the president's opposing party controls Congress, the markets still notched a solid 7.4% average return.

Please be aware that every cycle is different and elections are just one of many factors influencing market returns. Trends that have happened in the past are not necessarily guaranteed indicators of what will happen in the future.

To Page 1 Disclaimer

CHART OF THE MONTH - CONTINUED

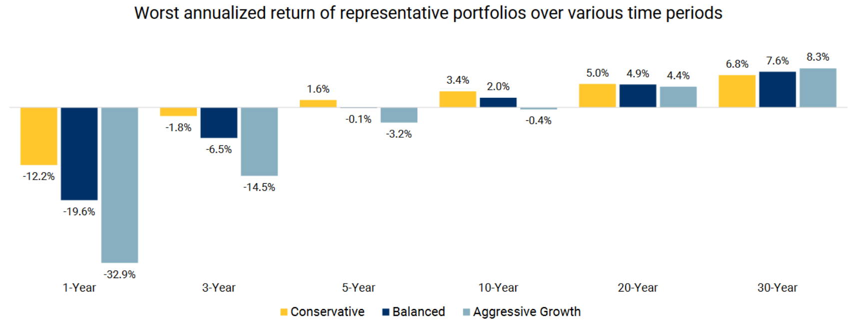


Source: Bloomberg, RBC GAM. As of June 30, 2022. An investment cannot be made directly into an index. The graph does not reflect transaction costs, investment management fees or taxes. If such costs and fees were reflected, returns would be lower. Past performance is not a guarantee of future results.

RBC Global Asset Management 3

TIME REMAINS ONE OF AN INVESTOR’S MOST POWERFUL ASSETS

A longer time horizon has reduced the likelihood of poor outcomes.



Source: Morningstar, RBC GAM. For the period of January 1, 1988 to August 31, 2022. Performance based on GAM's strategic asset mix for conservative, balanced and aggressive growth global investors. Returns calculated using the following allocations, rebalanced monthly. Conservative - 58% Fixed income: FTSE Canada Universe, 2% Cash: FTSE Canada 30-day T-bill, 13% Cdn Equity: S&P/TSX Composite TR, 15% US Equity: S&P 500 TR CAD, 12% Int'l Equity: MSCI EAFE GR CAD. Balanced - 38% Fixed income: FTSE Canada Universe, 2% Cash: FTSE Canada 30-day T-bill, 15% Cdn Equity: S&P/TSX Composite TR, 25% US Equity: S&P 500 TR CAD, 15% Int'l Equity: MSCI EAFE GR CAD, 5% EM Equity: MSCI EM GR CAD. Aggressive Growth - 2% Cash: FTSE Canada 30-day T-bill, 29% Cdn Equity: S&P/TSX Composite TR, 38% US Equity: S&P 500 TR CAD, 20% Int'l Equity: MSCI EAFE GR CAD, 11% EM Equity: MSCI EM GR CAD. An investment cannot be made directly into an index. The graph does not reflect transaction costs, investment management fees or taxes. If such costs and fees were reflected, returns would be lower. Past performance is not a guarantee of future results.

RBC Global Asset Management 4

To Page 1 Disclaimer

Planning For A Loved One With a Disability —Continued

They're designed to take care of people with a disability once their supporting parents or guardian passes away. The criteria to open an RDSP include being a resident of Canada who files income taxes, having a valid temporary or permanent Social Insurance Number (SIN), being younger than 59 or turning 59 in this calendar year, and last but not least that you are approved for or already receiving the Disability Tax Credit.

As a reminder, the Disability Tax Credit (DTC) reduces your taxes in recognition of your disability; and you claim the credit when you file your taxes. The good news is, the RDSP is exempt from most provincial disability and income assistance benefits. It does not get clawed back and it does not reduce disability benefits payments. In other words, money held in an RDSP (asset) and money taken out of an RDSP (income) are fully exempt from determining eligibility for Disability Benefits.

One should be aware that you are only able to receive the correct amount of government grants if you have filed income taxes for the previous two years. When the beneficiary is a minor, it's advisable to start filing their income taxes in the year they turn 17 years old. In the year the beneficiary turns 19, the grant and bond eligibility will be based on their income for two years prior, ensuring the correct amount of grants and bonds are received.

You can contribute as much or as little as you want in any given year, and you can continue to make contributions up until the end of the year in which the beneficiary turns 59. Anyone can contribute to the RDSP provided they have written permission to do so, and there are no restrictions on what the money can be used for once it is withdrawn, as long as it's used to help the beneficiary.

While RDSP contributions are not tax-deductible, income earned grows on a tax-deferred basis. When withdrawn, the funds are taxed as income.

You may be eligible for government assistance in the form of grants and bonds. It is estimated that RDSPs can provide $90,000 of Government funds over a lifetime. RDSPs are powerful savings tools, and although they are underutilized, they are not to be underestimated. An added benefit or strategy that families can implement, is that, upon the death of the beneficiary's supporting parents or grandparents, they can leave their Registered Retirement Savings Plan (RRSP) or Registered Retirement Income Fund (RRIF) on a tax deferred rollover in the RDSP as long as the beneficiary is under the $200,000 limit for the RDSP program.

Ultimately, the tax liability is deferred to the beneficiary, who is usually taxed at a lower tax bracket. It is very important to note these plans are designed for long term use specifically the beneficiary's retirement. In order to ensure their long-term use, there are claw backs of $3 for every $1 withdrawn within 10 years of receiving the grant. Any funds that are clawed back are lost; they cannot then be recontributed.

When it comes to withdrawing funds from the plan for retirement, there are essentially two ways of doing so. The first is to take a lump sum as a disability assistance payment. Alternatively, one can opt at the age of 60 to begin receiving lifetime disability assistance payments, that will remain in place for the duration of the beneficiary's lifetime. Upon the beneficiary's death, all funds remaining in the plan are paid to their estate. This really emphasizes the importance of a valid will.

The good news is that all is not lost for families who have yet to open an RDSP for a disabled family member, thanks to the carry forward nature of the grants. Working with an advisor can help to establish any catch-up room, which can include up to 10 years of contributions and grants. There can be upwards of $11,000 of eligible catch-up grants for those who are contributing after 10 years.

In summary, there are ample benefits of opening an RDSP. Although I've gone over the finer details of RDSPs in the not-so-distant past, the goal of this article is to summarize and educate further on these plans and emphasize their many benefits.

The RDSP offers flexibility and control in that you can choose the institution and investment vehicle from a range of options. As I've discussed, the Canadian Government is generous in their contributions, depending on family net income, the Canada Savings Grant offers $3 for every $1 contributed. Furthermore, for low-income families who may not be able to contribute at all, the government offers up to $1,000 per year for 20 years, through the Canada Disability Savings Bond. Again, Government benefits are not impacted by RDSP funds.

It has been proven very useful that nearly anyone, ranging from neighbours to charities, can contribute to an individual's RDSP with the plan holder's permission. Withdrawals can be spent (by the beneficiary) as they wish. The RDSP is a powerful tool for long-term financial security, and is suitable for anyone who is eligible for the Disability Tax credit, under the age of 60. Like most savings tools, it is always better to open these plans as soon as possible to take advantage of the grants, the power of compounding, and the ability to make withdrawals sooner. Please do not hesitate to reach out if you have any questions or if we can assist you on this issue.

Are We Ready For A Normal Recession?—Continued

It's quite difficult to define the timing of a recession because different groups such as investors, economists, and workers will experience the effects at different intervals.

For example, unemployment may remain high well after the economy has moved beyond a trough period (low point); whereas, drastic market declines may have occurred just prior and during the trough period of the economic decline. So, while investors see a recession as being over, workers may see a recession as continuing for months or even years.

2008 was a great example of this because investors began to make money again in 2009, while workers complained of hard economic times up until the mid 2010s. This is probably what is occurring right now, for example, the stock markets are having a terrible year but unemployment is down, consumer spending is still good, and company balance sheets are generally strong. In other words, markets are bad, but the economy is good (for now).

The disconnect is in the fact that the stock market is anticipating an economic downturn, but economic growth has yet to reflect that reality. In other words, Canada and the U.S. are probably not in an economic recession just yet, but we are probably looking down the barrel of one in the not-so-distant future. But that's not a bad thing. In fact, I strongly believe we need a recession to calm a very hot economy in which inflation is a real problem. I just don't want a deep or prolonged recession. Short and shallow would be much better.

Okay, so I've gone and talked about the dreaded R-word. Nothing is official yet, but if you read between the lines, it's clear we're looking at a bumpy ride ahead. However, I have some good news to share with you.

If we are headed for recession, this is shaping up to be the first normal recession we've had in over 20 years! Consider the last few recessions such as the COVID-19 recession (2020), Great Recession (2008), and the Early 2000s Dot-com bubble followed shortly by the recession caused by the 9/11 attacks (2001-02). These recessions are made up of bursting bubbles and black swan events, none of which is really "normal". A normal recession starts with a super-hot economy in which rising inflation becomes a problem that must be dealt with by raising interest rates. Rising rates make it more expensive to borrow and more expensive to buy goods and services. In other words, raising rates will slow down all borrowing and spending.

In normal recessionary times, companies are forced to trim the fat and focus on what they do best. This has the added effect of making the next round of company's leaner, stronger, and ready to grow in the recovery. There is a saying amongst fund managers right now that there is a lot of opportunity out there to make money over the next 3-5 years.

Jeff Moore—Continued

Taking a gradual contrarian approach – because government and risk sector yields have jumped to useful levels of correlation and total returns. A short-term perspective remains necessary largely because central bankers have chosen to be “now-casters” instead of “forecasters”: they are essentially groping in the economic fog, hoping, rather than expecting, to avoid the policy error of doing too little, and allowing persistent inflation, or too much, and driving a deep economic recession.

Looking longer-term, we think a demographic lens is useful. The G10 population is aging rapidly, work force sizes are mostly in secular decline, and many countries now face sizeable population declines. Consequently, in the long term, it is hard to see rapid GDP growth in any G10 country, based on demographics. And since historically real GDP growth and real bond yields have been linked, a demographic perspective makes it difficult to expect runaway real interest rates. This should create a downward bias for long-term government real yield expectations.

U.S. Federal Reserve (the Fed)

Fed Chair Jerome Powell is done with forward guidance, although he did assert that the Fed funds rate is already neutral. His credibility on this will depend on the data over the next few months. He also suggested that quantitative tightening may not be a near-term event, and even suggested the balance sheet could stay very large into the future. Interest rates and risk markets liked what they heard from the Chair – but all of these assertions will need to be validated by actual lower and lower CPI.

European Central Bank (ECB)

President Christine Lagarde has all but committed to a minimum interest rate hike of 50 basis points (bps) in September and, for now, seems comfortable with further hikes later this year. The ECB has also committed to do “whatever it can” to keep sovereign and corporate borrowing costs within a tolerable range of the euro risk-free rate, referring to the fact that the ECB’s so-called Transmission Protection Instrument (TPI) will step in to purchase bonds on any undue de-anchoring of credit spreads, on the condition that governments within the TPI’s jurisdiction are meeting their fiscal and economic commitments to the European Union 11 European Central Bank. Will that be enough, and can the ECB continue hiking? Answers to both questions may appear quickly, with an energy crisis hitting the economy hard during the third quarter and beyond, and with elections in Italy scheduled for September 25.

Bank of Japan (BoJ)

BoJ Governor Haruhiko Kuroda continues to repress ten-year JGB yields, which has led to a large decline in the yen relative to the U.S. dollar. For now, the BoJ is comfortable importing U.S. inflation, and Japan’s CPI recently crossed 2%.

People’s Bank of China (PBoC)

Real estate excesses continue to plague the economy, along with COVID-related lockdowns. It is hard to envision a fast-growing China in the future, based on demographics and heavy consumer debt loads. Targeted interest rate cuts will continue as needed. Could the currency also devalue some to recognize the yen move?

To Page 1

Disclaimer

Patrick Blais continued

Canadian equities were held back by underperformance in the materials sector, with gold stocks declining over 5% on the month. Overall, there was a strong cyclical rotation trade in the month, with technology, industrials, and consumer discretionary the top-performing sectors – all overweight's within our strategy. The energy sector, while posting positive absolute returns, lagged somewhat as crude oil prices fell for the second consecutive month. On the other hand, both rail and fertilizer stocks continued to buoy the major indexes.

In terms of monetary policy, while the US Federal Reserve delivered another 75 bp rate hike, market takeaways focused more on expectations for a transition away from frontloading rate hikes. Pickup in growth fears put some focus on "bad news is good news" theme with the negative correlation between stocks and macro surprises over the latter part of the month. The start of second quarter earnings season offered a mixed bag though some positive sentiment surrounding pricing power/margin resilience, economic normalization, bank earnings, read-throughs for the consumer, loan growth and credit, and the relative stability of 2022 consensus estimates. Meanwhile in Canada, stocks moved higher despite the Bank of Canada's decision to raise interest rates by a full percentage point at its meeting on July 13. The increase brought its policy rate to 2.5%, up from 0.25% at the beginning of 2022. The move reflected expectations that continued strength in the nation's economy would cause inflation to persist. Canada experienced the strongest growth of the Group of Seven economies in the first half of the year, due in part to the rally in commodity prices.

On a gross basis, Manulife Canadian Equity Private Pool managed to outperform the S&P/TSX Composite Index's returns for the second consecutive month, providing approximately 200 bps of added value for a gross total return of approximately 6.6%. While stock selection added a measure of value within a few sectors, it was largely our weightings in the industrials (overweight), information technology (overweight) and materials (underweight) sectors that contributed to relative performance. In industrials, after negative moves during the second quarter, rail stocks Canadian Pacific Railway Limited and Canadian National Railway Company were the top two contributors followed by auto services company Boyd Group Services Inc. and trucking company TFI International Inc. as sectors more tilted toward North American cyclicality benefitted from the domestic cyclical rotation trade. In information technology, Constellation Software Inc. was our largest contributor, with adjusted earnings from the second quarter up significantly when netting out its recent Allscripts acquisition. Finally, in materials, our underweight in the mining industry (specifically gold and precious metals) was a large driver on a relative basis, with core holdings CCL Industries and Nutrien Ltd. making a positive contribution, both benefitting from the month's cyclical rotation.

Positioning & Outlook

A hawkish Bank of Canada and US Federal Reserve fighting elevated inflation, record-setting gas prices and rising concerns of recession have many investors cautious with respect to the market outlook and how all of these forces will impact the consumer and cost inflation going forward. While these risks are certainly meaningful headwinds, it's important to note that valuations in Canadian markets are now trading below their ten-year average on a trailing basis, making them an attractive asset class given duration risk which still exists in the bond market as central banks continue tightening. While inflation remains a concern, it is likely to become a bifurcated event going forward as we transition from Covid-driven inflation to conflict-driven inflation, where food/energy prices are likely to remain elevated vs. deceleration for more interest-rate sensitive prices.

On the corporate fundamentals side, we generally expect earnings to be resilient as margins remain healthy and companies have shown restraint in limiting capital expenditures. We believe equities remain a compelling asset class as valuations for many stocks have become more reasonable following the recent pullback in markets, where earnings are solid and interest rates are expected to remain accommodative even after hikes this year. While energy represents a slight underweight via a larger underweight in pipelines, we remain overweight energy producers as they present the best relative valuation of the commodity complex. However, the risk of further rate hikes – that are more aggressive than anticipated as central banks deal with persistently high inflation – remains a risk to equity markets where we expect equity volatility to remain high throughout 2022.

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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