Kleinburg PRIVATE WEALTH

Carte WEALTH MANAGEMENT INC.

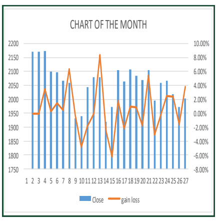
KPW LIFE PLAN—IMAGINE YOUR FUTURE

VOL. 10, ISSUE 3 MAR 2021

"A mistake made by many traders is that they become so involved in trying to catch the minor market swings that they miss the major market moves" - *Jack Schwager*

Sergio Simone
EDITORIAL COMMENT

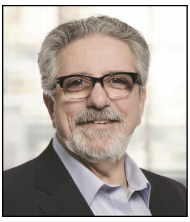
Kristina De Souza
A LOOK INTO THE LOOMING "SHE-CESSION"



THE SPECULATIVE CYCLE

Ryan Simone, CLU, CHS
I'M USING UNIVERSAL LIFE AS AN HEIRLOOM TO MY SON

Editorial Comment



Sergio Simone

One of the ways I characterize our approach to fund allocation is: "we are unlikely to be first to the party, but when the dancing begins, we'll be there". This describes my attitude towards Bitcoin, or more accurately, cryptocurrency, which we now refer to as digital currency. I have clients who have successfully invested in digital currency while we cautiously remained on the sidelines. I always had some issues with digital currency, primarily regarding things like, liquidity, custodianship, transparency, to name a few.

Continue Reading

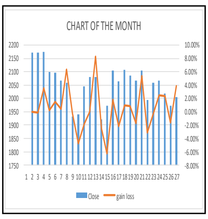
A look into the looming "She-cession"

Kristina De Souza

Earlier this month we celebrated International Women's day, a day set aside across the globe to commemorate the social, economic, cultural and political achievements of women. It is a day that also marks a worldwide call to action for accelerating gender parity and fundraise for female-focused charities. In light of such progress and optimism it is disconcerting that research is mounting and unanimous- the current Covid-19 pandemic has disproportionately affected working women.

Continue Reading

The Speculative Cycle



The following is an excerpt from an article that can be found here.

Charles Kindleberger suggested that speculative manias typically commence with a "displacement," which excites speculative interest. The displacement may come from either an entirely new investment object (IPO) or increased profitability of established investments.

Continue Reading

I'm using Universal Life As An Heirloom To My Son

Ryan Simone, CLU, CHS

If you have young children, you might be looking for ways to help them financially when they are older. Of course, there is the classic RESP strategy to help pay for University. You could also open In-Trust investment accounts but those are taxable accounts and "technically" your kid has access to the money at age 18. Do you remember what your financial management was like at 18? If you want to see how fast money can be spent, give it to an 18-year-old.

Continue Reading

Kleinburg Private Wealth
91 Anglewood Ct.,
Kleinburg, ON, L0J 1C0

www.kpwfinancial.com

905.893.2540
info@kleinburgprivatewealth.com

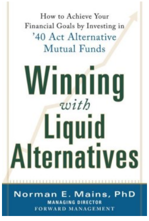
Kleinburg PRIVATE WEALTH

Carte WEALTH MANAGEMENT INC.

KPW LIFE PLAN—IMAGINE YOUR FUTURE

VOL. 10, ISSUE 3 MAR 2021

To Page 1 To Links Page



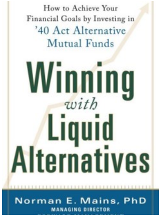
BOOK OF THE MONTH

FUND OF THE MONTH FORGE FIRST LONG SHORT ALTERNATIVE

INVESTMENT TERMINOLOGY

BLOG OF THE MONTH IMF BLOG

BOOK OF THE MONTH



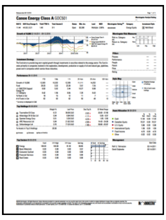
WINNING WITH LIQUID ALTERNATIVES

- by Norman E. Mains, PhD

Until recently, only the very wealthiest investors were able to access the alternative strategies institutions rely on to help reduce portfolio risks and meet investment targets. That is changing, thanks to liquid alternatives. "Liquid alternatives," refers to a new breed of mutual funds and ETFs that combine the sophisticated, goal-driven strategies of the hedge fund world with the daily liquidity, regulatory oversight, and accessibility of mutual funds.

FUND OF THE MONTH

FORGE FIRST LONG SHORT ALTERNATIVE FUND



To provide a positive net total return, regardless of market conditions or general market direction, with low correlation to North American equity and credit markets. The Fund uses alternative investment strategies, such as equity long/short, pairs trading, arbitrage trading, thematic trading, the use of derivatives for leverage and/or borrowing for investment purposes. The Fund's expected range of gross exposure is 100% to 150%

LIQUID ALTERNATIVES

Liquid alternatives bridge the gap between traditional mutual funds and hedge funds, bringing together the best element of both worlds.

Liquid alternatives are sure to come in many different shapes and sizes but, generally speaking, we believe they will be excellent portfolio additions. Depending on the investment strategy of the liquid alt fund in question, it could replace a portion of your existing equity allocation to help minimize volatility or insulate against market drawdowns, replace a portion of your fixed income allocation

BLOG OF THE MONTH

The Future Of Asia: What A Difference A Year Makes

The Sydney Opera resumed live performances and the city of Melbourne recently hosted the Australian Open tennis tournament with fans (mostly) in attendance. Japan is back to planning the delayed 2020 Summer Olympics, while China focuses on the Beijing 2022 Winter Games. Having been hit by COVID-19 first, Asia is also recovering first. At the pandemic's first anniversary, is the region back to full health?

Long-lasting effects

If past experience is any guide, this pandemic will have long-lasting effects. A look at past recessions in advanced economies reveals that on average, five years after the start of a recession, output is still almost 5 percent below its pre-crisis trend and unlikely to ever catch up.

Continue Reading

Disclaimer

Kleinburg PRIVATE WEALTH

Carte WEALTH MANAGEMENT INC.

KPW LIFE PLAN—IMAGINE YOUR FUTURE

VOL. 10, ISSUE 3

MAR 2021

PRIVATE WEALTH

INFORMATION AND SOLUTIONS FOR HIGH NET WORTH INVESTORS

Weber Global Management

ULTRA HIGH NET WORTH VS HIGH NET WORTH: WHAT'S THE DIFFERENCE?

To a wealth management advisor, "wealthy" isn't a single category. From $1 million to $100 million, a lot changes in how you approach your wealth, strategize for growth, preserve for future generations and plan for your estate. High Net Worth (HNW) and Ultra High Net Worth (UHNW) investors differ greatly on financial needs and require a highly specialized approach by wealth managers who are well-versed in managing wealth for the ultra wealthy. A HNW individual will have between $1 million and $10 million in liquid net worth. The term UHNW refers to anyone who has over $10 million in liquid net worth.

INVESTOPEDIA

ESTATE PLANNING FOR CANADIANS

What You Need To Know About Passing Your Assets To Your Heirs

In estate planning, Canadians don't have to contend with an estate tax the way U.S. citizens do. However, what many people don't realize is that a "deemed disposition tax" applies when you die. In this article, we'll provide tips on minimizing your estate's exposure to this tax and structuring your estate plan to ensure your beneficiaries get the assets you intend for them.

BNN Bloomberg

WHAT WEALTHY CANADIANS WANT

High-net-worth individuals have different needs than the average investor. Here's what you need to know about working with these kinds of clients.

You might think that the world's wealthiest also take the biggest stock-market risks – after all, they seem to keep growing their nest eggs – but you'd be wrong.

CEOWORLD Magazine

DANGERS OF BECOMING SUCCESSFUL TOO FAST

Sometimes we struggle so hard to reach our goals that we never wonder what happens next. Especially when this success comes too soon and in most cases when people are very young, the challenge is to see how you will handle this situation.

Let's see what might come up along the way and how you can stay authentic and happy.

Kleinburg PRIVATE WEALTH

Carte WEALTH MANAGEMENT INC.

KPW LIFE PLAN—IMAGINE YOUR FUTURE

VOL. 10, ISSUE 3

MAR 2021

FUND MANAGER COMMENTARY

MARCUS JIANG
CHINA ASSET MANAGEMENT

MACAN NIA
MANULIFE INVESTMENT MANAGEMENT

JASON ISAAC
CUMBERLAND INVESTMENT COUNSEL INC

DANIEL E. CHORNOUS
RBC GLOBAL ASSET MANAGEMENT

Marcus Jiang, IMC, CFA, SVP

China Asset Management Co. Ltd.

China has been a powerful growth story for many years, and more chapters are being added to that story. While China is currently the world's second-largest economy and represents roughly 17% of global GDP, it could becomethe largest economy by 2030. In 2021 alone, economic growth in China is expected to be about 8%.

Continue Reading

Macan Nia, Senior Investment Strategist

Manulife Investment Management

The Emerging Markets Opportunity (Part 1) - Demographics

Over the past few decades, the world economic order has been shifting towards Asia. Unfortunately, many Canadian investors aren't positioned to take advantage of this opportunity. The Globe and Mail did an analysis of Canadian balanced mutual funds, exchange-traded funds (ETFs), and robo-advisor portfolios and found that the average weighting towards international

Continue Reading

Jason Isaac, Portfolio Manager, Global Equity

Cumberland Investment Counsel Inc.

"He who is not courageous enough to take risks will accomplish nothing in life" **– Muhammad Ali**

Best laid plans, hmm? Heading into the new year I had come up with, what I thought was a beautifully simple concept about a series of Notes that would highlight the areas of the economy that our global team was searching for disruptive technologies.

Continue Reading

Daniel E. Chornous, Chief Investment Officer

RBC Global Asset Manaagement

Market Update—March 2021

Economies have shown impressive resilience and data has consistently exceeded expectations since the pandemic began. With the beginning of mass vaccinations and the gradual reopening of economies, we are moving into a better growth environment supported by highly stimulative fiscal and monetary policies. This positive view is reinforced by leading indicators of economic growth rebounding to their highest levels since 2018. Moreover, as lockdowns and work-from-home orders curbed spending, many consumers accumulated savings throughout the pandemic and are now in a position to boost spending as virus risks fade.

Continue Reading

Kleinburg PRIVATE WEALTH

Carte WEALTH MANAGEMENT INC.

KPW LIFE PLAN—IMAGINE YOUR FUTURE

VOL. 10, ISSUE 3 MAR 2021

To Page 1

LINKS

To Page 2

Consumers Pay Higher Prices In February, CPI Shows, As Inflation Keeps Creeping Up

U.S. consumer price index has

Inflation Fear Lurks, Even As Officials Say Not To Worry

Prices have yet to show much movement, but the prospect of

Record Home Sales Expected This Year, CREA Says Amid February Increase

The national average home price

Gasoline Prices Solely Responsible For Inflation In January

A 7.4% pickup in gasoline prices drove overall prices up 0.3% in

Why In The World Would You Own Dollar Debt?

Bond markets offer ridiculous low yields. Real yields of reserve currency sovereign bonds are

T. Rowe Price Finds Retirees Reduce Spending As They Age

Retirees tend to be flexible about their spending, with asset

International Markets Poised To Outperform U.S. In 2021

Vivek Gandhi of Putnam Investments says the main reasons are sector mixes, stock valua-

Bitcoin Rally Is In The 5th Inning

Bitcoin is the black hole that is sucking market capitalization out of every failing store of value in

Fed Sees No Rate Hikes Through 2023 Despite Some Inflation Overshoot

Fed sees 6.5% GDP growth this year, with inflation slightly above

charles SCHWAB

SCHWAB MARKET PERSPECTIVE: MOVING, WITH BOTTLENECKS

U.S. economic growth is accelerating as vaccinations rise and social-distancing measures ease, but hopes for a long-lasting spending boom may hit a couple of speed bumps.

LOOMIS | SAYLES

WHAT'S BEHIND THE RECENT RISE IN REAL YIELDS?

Rising yields and a steeper yield curve are par for the course as an economy enters the recovery phase of the global credit cycle. While rising yields are often painful for bond investors as bond prices decline, we view them as a signal that global reflation efforts are taking hold. Yields typically adjust as investors rebalance their portfolios and shift toward more risky assets that may offer higher expected returns.

VIDEO LINKS

The Chair Of The Federal Reserve Tries To Calm Markets, But Skepticism Remains!

Jerome Powell, maintains that the acceleration in inflation will

What Markets Do When Interest Rates Rise

A short video from David Fingold on the impact of rising rates on the markets

S&P 500 Technical Analysis—New Bull Market 2021!

S&P500 Technical Analysis—Record highs, stimulus on the

The Economist

HOW MUCH OF A WORRY IS INFLATION?

FINANCIAL MARKETS in the rich world are haunted by a spectre long held at bay: inflation. For years, unconventional, ultra-loose monetary policy has pumped up asset values without pushing consumer prices beyond central bankers' targets. The belief that both interest rates and inflation will stay low has fed investors' enthusiasm. But recently that faith has wavered. The prospect of America's enormous stimulus package—which Congress passed on March 10th—plus concerns over the direction of monetary policy have caused gyrations in America's financial markets. How likely is inflation to rise, and should investors be concerned?

EDITORIAL COMMENT - CONTINUED

These issues may finally be put at ease as C.I. Mutual Funds launched a digital currency fund. Bitcoin has evolved from its originally conceived peer-to-peer digital currency for the Internet to a next generation store of value. It has proven to be resistant to political censorship or interference while governed by the mathematical principals of its open-source code.

I am confident in stating that most investors are somewhat in the dark when it comes to digital currency. This editorial will clarify what it is and why now may be the right time to use it as an asset allocation diversifier in your investment portfolio.

Bitcoin's history is built on technological advancements in computer science, cryptography, and digital scarcity. It was designed to facilitate trust-minimized transactions without a centralized intermediary, in a highly secure and transparent way. It has become a force of innovation since its introduction in the aftermath of the 2008 financial crisis. The use of its underlying blockchain technology has driven the value of the digital asset to be the world's best performing investment of the last decade.

The best way to think of Bitcoin blockchain is as distributed software that allows for the transfer of value via its native digital asset, bitcoin, without relying on third parties, like banks. Its value is created from its public, predictable, and unchangeable monetary policy that ensures the asset's inflation rate will decrease over time.

Bitcoin has created a new asset class that may become the biggest technological development since the Internet. It is inevitable that bitcoin will continue to differentiate itself from traditional assets as it becomes more mainstream.

I believe there is a fundamental change in the macroeconomic landscape as we enter a new market cycle, which has created a very supportive framework for bitcoin. Without question, the world has been digitizing for many years. The pandemic added a steroid shot to the mix causing this trend to move at a breathtaking pace. Bitcoin is well-positioned to benefit from this trend. An added benefit is that bitcoin is virtually uncorrelated to the equity markets which makes it an attractive portfolio diversifier in uncertain times. Moreover, when considering bitcoin's fixed supply – there will only ever be 21 million – stands in sharp contrast to the Federal Reserve's recent money printing binge.

Legitimizing this macroeconomic overlay lies a regulatory foundation that, I believe, has added credibility to bitcoin and has fueled much of its growth. Since 2015 when the New York Department of Financial Servers started to grant cryptocurrency licenses and charters, until more recently when the Office of the Comptroller of the Currency (OCC) clarified their stance on custody: allowing financial institutions to custody digital assets on behalf of their clients, there have been several regulatory developments that have strengthened bitcoin as an investable asset.

Renowned hedge fund investor Paul Tudor Jones is among a number of high-profile hedge fund managers who have allocated to digital currency. In a recent letter to investors, Jones compared bitcoin's role in a portfolio today to that of gold in the 1970's. He stated that bitcoin would be "the best-performing hedge against the current Great Monetary Inflation, an unprecedented expansion of every form of money unlike anything the developed world has ever seen."

I believe bitcoin's future is bright, and now may be the time to begin incorporating it into portfolios, especially when used as a surrogate for gold which has historically been viewed as a safe, durable store of value. Investors have always looked to gold in times of market stress as a safety mechanism to preserve wealth and protect against inflation in the financial system.

Gold played a central role in physical trade for thousands of years but the world is changing and a better solution may be available. We now live in a digital world and bitcoin shares many of the same attractive properties that gold exhibits. Both gold and bitcoin are borderless and have no centralized power or government that controls its supply. Both are globally recognized, easily verifiable, and have limited supplies.

Bitcoin expands on gold's benefits which may make it more attractive to investors. Unlike gold, bitcoin is easily divisible into smaller units. While gold requires large and expensive storage facilities and is burdensome to physically transport, bitcoin does not require high storage costs and is weightless. Bitcoin can quickly travel across borders in the same frictionless way that information is shared across the internet.

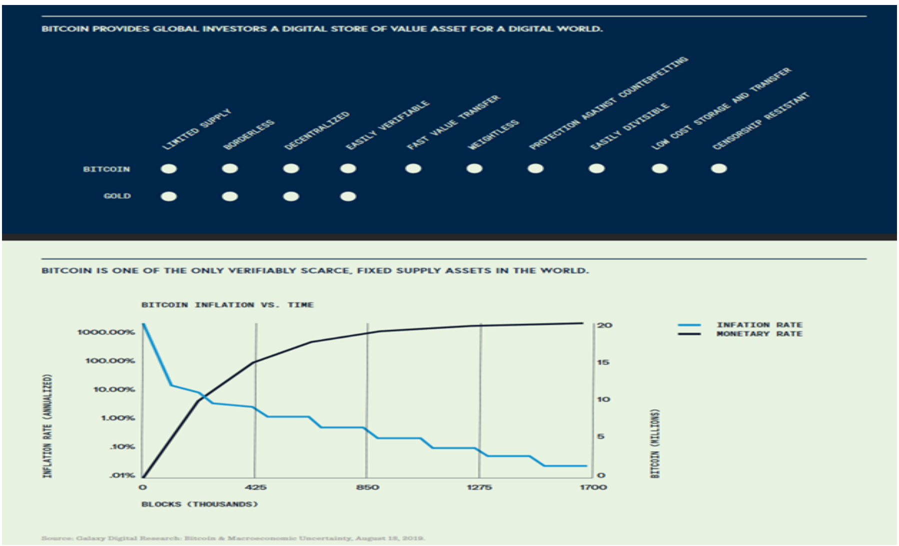
Bitcoin is one of the only verifiable scarce, fixed supply assets in the world. Bitcoin's underlying code controls how much new bitcoin is created and limits the maximum amount of bitcoin that will ever exist to 21 million. bitcoin's supply is transparent and unchangeable; it is strictly bound and algorithmically hard-coded. An increase in the value of bitcoin does not affect its supply and does not affect bitcoin's issuance schedule. As of today, just over 18 million of that total supply has been issued. Approximately every four years, the supply of bitcoin issued as mining rewards gets cut in half until eventually no more supply will be issued.

Kleinburg PRIVATE WEALTH

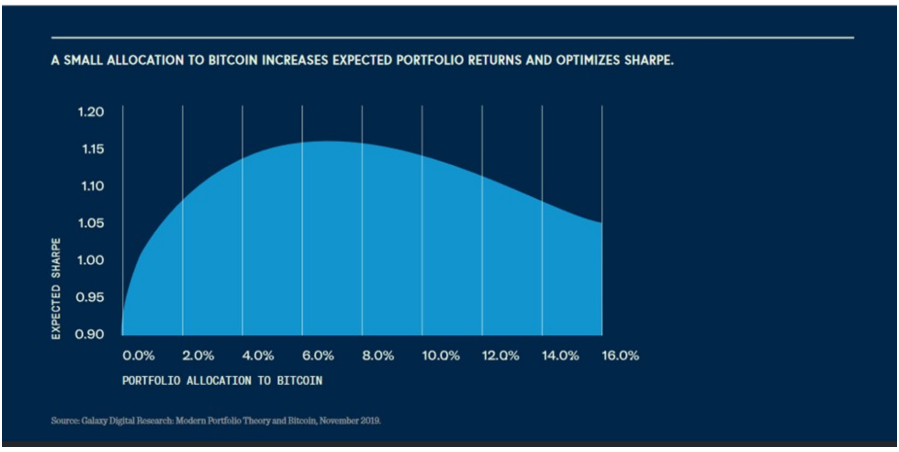
Carte WEALTH MANAGEMENT INC.

EDITORIAL COMMENT - CONTINUED

It is expected that by 2140 all the bitcoins will be mined.



Despite its volatile nature, I believe that adding a small allocation to an investment portfolio will increase a portfolio's overall expected return and improve the expected risk-adjusted returns. The following chart shows how even a small 0.5% to 2.5% allocation to bitcoin can significantly improve a portfolio's Sharpe Ratio which measures how much excess return you receive for the extra volatility you endure for holding a riskier asset.



In just over a decade, bitcoin has transformed from a relatively obscure innovation into a globally recognizable institutional asset with room to grow. If bitcoin were an asset class, it would dominate as best performer in one-, three-, and ten-year period. For any investor with a modicum of sophistication, bitcoin can no longer be ignored. It is no surprise that more than 80% of the Fortune 100 companies have explored blockchain technology and that more than 20% of institutional investors already own digital assets.

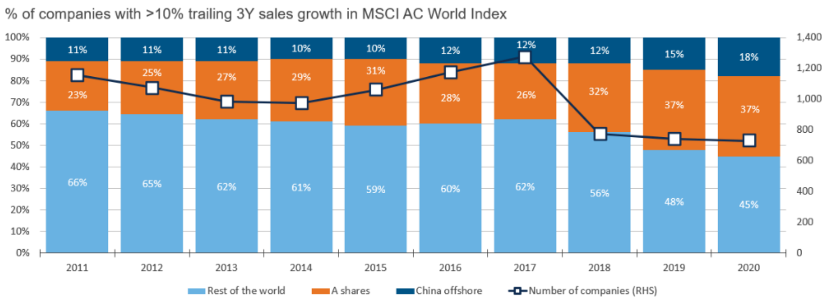
My view is that digital currency is here to stay. I can assure you that the ride will NOT be a steady upward trajectory. There will be future bull and bear markets in crypto, but in my opinion, the innovations occurring in this space cannot be ignored. I expect to see the birth of a new financial and internet ecosystem that will coexist with the current one.

Many investors may be concerned that they "missed the boat on bitcoin". I believe these trends will likely play out over the course of many years if not decades, so it is still early in the game. Using a baseball analogy I would guess we are in the second inning of the digital coin ballgame despite the rapid growth cryptocurrency has experienced over the last few years.

Marcus Jiang - CONTINUED

6 reasons to include China in a portfolio's global allocation

1. As mentioned, China's growth potential is reason to generate significant investor interest. The below chart shows the top growth companies within MSCI ACWI index. Chinese companies onshore, represented by A share, and offshore make up 55% of the companies with highest growth potential in China



Source: MSCI, FactSet, Goldman Sachs Global investment Research.

2. Historically, foreign ownership of Chinese equities has been very low, but the tide is turning as global institutional and retail investors are recognizing the superior potential in the Chinese market, which has generated large inflows of investor capital into China. In fact, with index inclusion, between US$800 billion to US$1 trillion is expected to flow into China's markets in the not-too-distant future.

3. Another compelling reason to invest in China is the diversification benefit. Since the Chinese equity market has low correlation to developed markets, allocating a portion of a global equity portfolio to Chinese equities has shown to improve risk-adjusted returns. Refer to the following chart for China's superior correlation characteristics.

Correlation 10Y, local ccy	China A	China All Share	MSCI USA	MSCI Europe	S&P / TSX	MSCI EM
MSCI China A	1.00					
MSCI All China	0.85	1.00				
MSCI USA	0.40	0.58	1.00			
MSCI Europe	0.34	0.46	0.81	1.00		
S&P / TSX Composite	0.39	0.50	0.82	0.76	1.00	
MSCI EM	0.51	0.79	0.75	0.63	0.69	1.00

*Source MSCI and Bloomberg, as at 31 December 2020.

4. China's massive population is capable of moving the needle significantly on the growth prospects of companies, particularly in the consumer sectors. As China's middle class continues to experience explosive growth, the consumption story in China will grow accordingly, particularly for premium brands. The Chinese government is focused on internalizing consumption to help maintain domestic economic growth. For instance, whereas Chinese tourists have had to go overseas to buy luxury goods, the advent of duty-free malls in China is now enticing Chinese shoppers to stay local (and spend local) for their luxury items.

5. China has proven to be highly resilient through challenging economic conditions, even in the face of the pandemic. Chinese New Year is traditionally a time to travel home and celebrate with family. In 2021, with new virus outbreaks in large centres, the government implored workers to stay put for Chinese New Year (leading to a 70% decline in travel relative to typical years). Despite the travel restrictions, the economy continued to boom. On a year-over-year basis compared to Chinese New Year 2020, online shopping rose 135% and restaurant business gained about 35% during the seven-day 2021 holiday. The Chinese consumer is adapting well to the new order (brought about by COVID-19), and less travel abroad means more money remaining in China.

6. Despite China's prolonged rapid growth, inflation is still well contained (e.g., Core CPI figures are currently negative). Interest rate policy has tightened after the 10-year treasury yield declined from 3.3% just before the pandemic, to 2.5% once the pandemic necessitated monetary support. The 10-year yield has crept back to the 3.3% range, giving the Chinese government wiggle room to cut rates if economic stimulus is ever required

Kleinburg PRIVATE WEALTH

Carte WEALTH MANAGEMENT INC.

Marcus Jiang - CONTINUED

Volatility in Chinese markets

While it’s true that China’s stock market is more volatile than developed markets (about 20% to 22%, versus 15% to 18% for the MSCI World Index), investors should recognize that volatility is a two-way measure that represents both upside and downside movement. In recent years, China’s higher volatility has benefited global portfolios. When adding a new, low-correlation (or uncorrelated/negatively correlated) asset to a diversified portfolio, you actually want this new asset to be more volatile, since that volatility leads to stronger diversification benefits and potentially higher overall returns. Of course, higher volatility can work against investors on the downside, but currently an upward trend appears poised to persist in China.

The case for active management in China

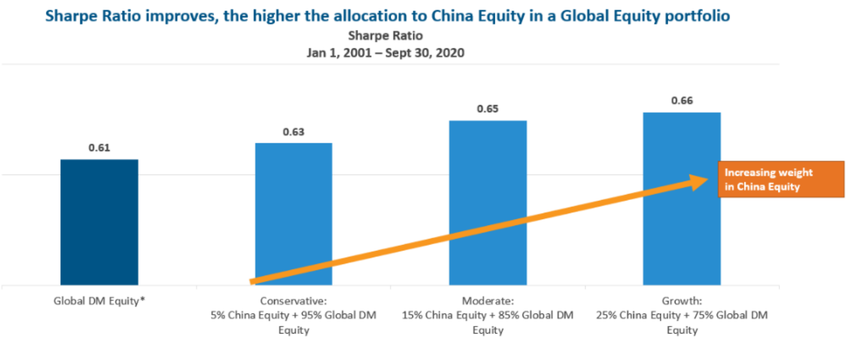
One of the biggest reasons that active investment management is well suited for Chinese markets is the higher alpha potential that active managers may generate. In large developed markets like the U.S., the sell-side research coverage (e.g., by major investment banks) is extensive and many companies are over-researched, which results in fewer opportunities to generate alpha. In China, there is considerably less research coverage, and history shows that active management can be effective at exploiting inefficiencies born out of this lack of analyst coverage.

Optimism about Hong Kong markets

- We’re excited about the prospects for the stock market in Hong Kong. Increasing more technology unicorns are listing on the Hong Kong exchange. In fact, China is second to the U.S. in terms of the number of technology unicorn companies that are yet to be listed.

- Chinese regulators have approved the second pillar of Chinese pension fund reform that allows the investing of assets in the Hong Kong stock market. This is likely to result in massive inflows

- With the ongoing trade war between the U.S. and China, tensions remain high and the U.S. has moved to delisting Chinese companies on its exchanges. In light of that development, many Chinese companies are heeding this delisting risk and choosing to dual-list on the Hong Kong exchange.



Source: Morningstar Direct. 1/1/2001 – 9/30/2020, in CAD.
* Global DM Equity is represented by MSCI World TR Index
**China Equity is represented by a Blended Benchmark from December 1, 2001 to May 30, 2008 which is composed of 50% MSCI China A Index & 50% MSCI China Index; from June 1, 2008 to November 26, 2019 which is composed of 100% MSCI All China Index, and MSCI China All Shares Index thereafter.

JASON ISAAC - CONTINUED

We know that certain areas do well when employment is high, consumers are spending and companies are expanding.

As demand increases, miners increase volume, manufacturers ramp up output, retailers expand hours and home builder put more holes in the ground which bodes well for their respective businesses. All well and good, however each of those are subject to the business cycle and the inevitable ebb and flow as things run hot and cold and is the reason the equity market is rotational in nature. Participants shuffle around reallocating capital to marginal corners of the market seeking incremental returns. As noted in a previous piece we are living in the most transformative and innovative era in human history and it is paramount investors have exposure to those areas that will fundamentally alter the way that consumers, industries, or businesses operate. Consider examples of recent disruptive technologies which include e-commerce, online, ride-sharing apps, and GPS systems and in their own time, the automobile, electricity, television and the internet were disruptive.

Recall, that we feel there are 5 key disruptive technologies that will change the world and are the principle areas that the GIG will be hunting for transformative growth.

1. Blockchain Technology

2. Genome Sequencing

3. Artificial Intelligence

4. Robotics

5. Energy Storage

Ideally, as these disruptive technologies sweep away the old systems and habits they rewrite the rules of engagement and “should” transcend the more mundane machinations of the business cycle. I am sure many noticed that I used the word “should” … yes, it was on purpose. While the concept of Disruptive Technology investment is universally appealing, tells a fantastic story and is absolutely necessary for all equity investors it, unfortunately, does not come without a high degree of risk … and we’ve witnessed that in spades this week. With that said, I am going to take a small detour and instead focus on the tantrum we saw in the bond market, what we think it means and more importantly how does that affect the outlook for disruptive technologies (aka concept stocks), which by their very nature are long time horizon properties. A definition to keep in mind when reading the following: High Duration Assets: security ownership that will take a LONG time to recoup your original capital either through direct payment of interest or dividends, or indirectly through capital appreciation.

Yields, Rates, Yields, Rates …..What to do??

Bottom line: We think the inflation fears are overblown as the story is reflation, which is very bullish for equities.

The chart below shows the difference between nominal yields and inflation expectations. Recently, as nominal yields rose (red line), the forward inflation expectations (blue line) actually fell. This is a clear sign that contrary to what the talking heads are shouting on TV, the bond market isn’t actually worried about inflation ….. just yet.

Source: FRED, Federal Reserve Bank of St. Louis

Source: StockCharts

The commodity markets are telling the same story. The ratio of gold to CRB is falling while the copper to gold ratio is rising. These are both indications that the market believes the forces of cyclical reflation is dominating inflation.

Additionally, there are a number of areas we look at when it comes to rates and their impact on equities.

1. The Fed and whether they're subsidizing the interest rate market by keeping policy rates low. Today, they are which is good news.

2. Corporate Credit (specifically the BB vs BBB spread) and whether there's sufficient lubrication in the system to keep things moving efficiently. Again, there's good news not bad in that arena.

JASON ISAAC - CONTINUED

3. Consumer Credit. There is no doubt that the Pandemic has been hard on people but we also must note that at the aggregate level that the consumer is not over extended from a credit perspective and the Housing market is still in great shape.

4. GICS Sectors. With the exception of Energy the Sectors that typically do well relative to the market at the end of the cycle have not been performing [Real Estate (nope), Health Care (nope) and Utilities (nope)]

a. Important: The Consumer Discretionary Sector just recently broke on a relative basis and is the proverbial "Canary in the Coal Mine". If/When this sector roles over then that will be the time to consider repositioning.

5. Monetary and Fiscal Policies

a. Rates: the key is not just Level but also the Pace of Rate of Changes. In terms of level, rates today are mid-range, but the pace of change has moved and is forcing some readjustment. As expected, those readjustments hit the names which, surprisingly are not cyclicals, but in long-duration assets. These are concept stocks where current cash-flow to share-holders is limited but prospects are very bright. There are no interim cash payments to cushion price changes.

b. Gov't: there is a $1.9T Covid Bill pending where over 100M Americans will get $1400 to spend. Further, next up is a $3-4T Infrastructure Bill …. This is very supportive

"If interest rates are rising on the heels of reflation and real growth, that is positive for risk assets. In the last few decades, when interest rates have risen, it has been due to real growth. The markets have shown they are willing to tolerate the Federal Reserve's suppression of interest rates in such a scenario. But if interest rates are rising because of faster inflation, then that is not good for risk assets. All else being equal, inflation depresses real economic growth and earnings as purchasing power dwindles." - Jim Bianco

Source: https://www.bloomberg.com/opinion/articles/2021-01-14/the-alphabet-soup-of-recoveries-adds-r-and-i

There is the reflation phase, which is equity bullish, and an inflation phase, which creates headwinds for equities as central banks tighten the economic cycle. We are in the reflation phase, bullish. Beta is holding up, overall credit conditions are holding up meaning that this tantrum is a mid-cycle adjustment as yields are now causing equity investors to consider valuations but not a broader problem in our view.

A quick hitter from one of my favorite strategist, Jeff DeGraff from Renaissance Macro

https://www.youtube.com/watch?v=jdzBembCkUo

So …

back to disruption (aka high duration) assets … clearly changing rates will induce price volatility as the discounting of future cash flows causes the present value of that asset to jump around BUT this is exactly what is meant by risk and in no way changes the reason as to why invest as the future is very bright. I am sure the Mr. Ali the GOAT would agree that Price Risk today = Growth tomorrow.

A look into the looming “She-cession” —Continued

The economic impacts of the pandemic have been direct and immediate for women, both close to home and across the globe. Arguably, existing systemic inequalities have been further exacerbated by recent shut-down measures, resulting in what some economists are referring to as a "she-cession”.

Over the last year or so, approximately 100,000 women over the age of 20 have exited the job market, compared to a mere 10,000 or so male counterparts. Temporary business shutdowns have severely affected sectors that predominantly employ women. The aftermath has many Canadian women concerned about job security and the belief that their career advancements have been put on hold or are at risk. As a direct outcome of job loss, has come an increase in financial stress for women. Research has shown specific concern related to retirement savings and lack of emergency funds that has surfaced in the current environment.

The variable that is complicating employment the most is caregiving, specifically as it pertains to restrictions on schools and paid childcare facilities shifting additional hours of unpaid family care onto parents, most notably, mothers. The responsibilities for children in Canadian households are significantly higher for females, and again that the time spent on unpaid childcare has increased dramatically during Covid-19 for women compared to male counterparts.

Although the long term impacts of the current environment are still up for debate, it appears that family systems are regressing to more historic norms due to the closures of childcare and school facilities. It has been increasingly difficult for dual income families to sustain this arrangement in the current environment. Despite the easing lockdowns across the globe, many argue that there will be a long-lasting impact on women’s work and home lives as a result of this pandemic.

A recent study by the United Nations cautioned that this pandemic has the potential to erode decades of gender equality advancement. As I’ve touched on already, women's labour participation rate is falling to its lowest in 3 decades; and as a result decades of progress towards gender equality are at risk.

The crisis is nowhere near over for working women, and even as society tries to navigate our way out of this pandemic we are seeing fewer women than men gaining reemployment. As an interesting and relevant sidenote, as schools begin to reopen (and periodically shut down), the Ontario Chamber of Commerce has released a report, The She-Covery Project: Confronting the Gendered Economic Impacts of COVID-19 in Ontario. This brief lays out a path to Ontario's "she-covery" by offering practical recommendations to confront both immediate and longer-term challenges.

If we fail to take a deep dive into the challenges women are currently facing, we risk turning back time on decades of progress. I can attest to the fact that flexible work arrangements are one way to level the playing field for women, and this solution is notorious for improving organizational outcomes. The President and CEO of the Ontario Chamber of Commerce has stated that "This is not only a watershed moment for women but for Ontario's economy and society more broadly, as women's participation in the labour market is a precondition to its economic recovery and future prosperity."

Although the pandemic experience has been universally challenging, we continue to argue that it has provided us with a great opportunity to connect and make an impact with our clients. Whether a job loss has occurred or not, the pandemic has highlighted the need for building emergency funds as well as emphasized various insurance needs including life, health, and disability to name a few.

We have catered our planning to the increased changes in client’s circumstances, even if they are temporary in nature, while helping them stay the course to achieving their long term goals. To this point, advisors, like us, can help navigate financial fallout through customized planning while providing the education and guidance that meets any client’s unique needs.

Kleinburg PRIVATE WEALTH

Carte WEALTH MANAGEMENT INC.

The Speculative Cycle —Continued

The speculation gets reinforced by a "positive feedback" loop from rising prices. Such ultimately induces "inexperienced investors" to enter the market. As the positive feedback loop continues and the "euphoria" increases, retail investors then begin to "leverage" their risk in the market as "rationality" weakens.

During the mania, speculation becomes more diffused and spreads to different asset classes. New companies get floated to take advantage of the euphoria, and investors leverage their gains using derivatives, stock loans, and leveraged instruments.

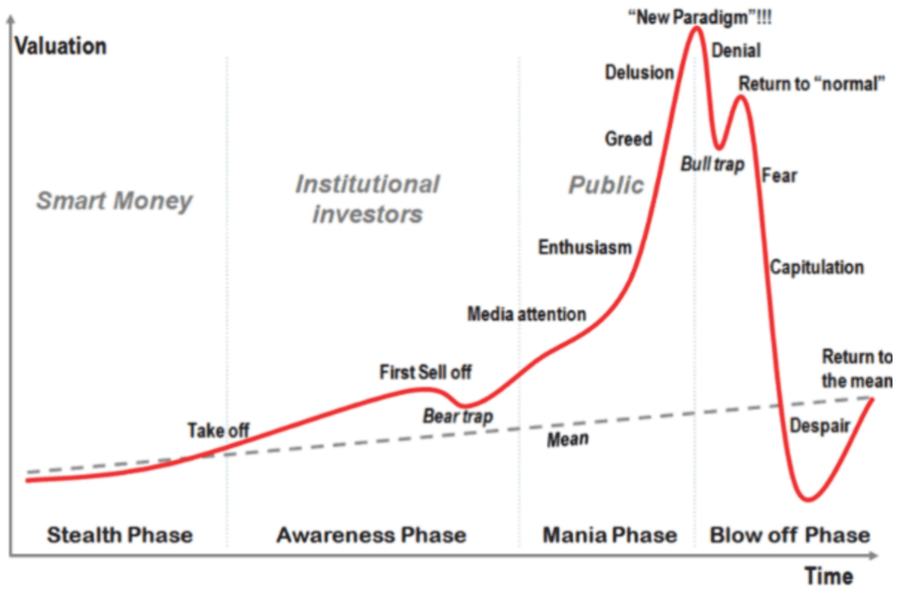
As the mania leads to complacency, fraud and manipulation enter the marketplace. Eventually, the market crashes and speculators get wiped out. The Government and Regulators react by passing new laws and legislations to ensure the previous events never happen again.

Wash, Rinse, and Repeat.

"'Even apart from the instability due to speculation, there is the instability due to the characteristic of human nature that a large proportion of our positive activities depend on spontaneous optimism rather than mathematical expectations, whether moral or hedonistic or economic. Most, probably, of our decisions to do something positive, the full consequences of which will be drawn out over many days to come, can only be taken as the result of animal spirits-a spontaneous urge to action rather than inaction, and not as the outcome of a weighted average of quantitative benefits multiplied by quantitative probabilities.' - John Maynard Keynes

Keynes's idea of "animal spirits," which were awakened by consecutive rounds of monetary stimulus on a global scale, has enticed investors to believe that all risks of a market cycle completion have gotten removed.

The exuberance from the financial media and many pundits reminded me of this chart on the full market cycle.



To Page 1 Disclaimer

I’m Using Universal Life For An Heirloom To My Son —Continued

A third option, and one that my Dad did for me and I am using with my own son, is Universal Life Insurance. Here’s how it works in one sentence: Take out a life insurance policy on your child, overpay the monthly premium, and transfer the policy to your kid at whatever age you want. My son will probably be around 30 before it becomes his. That’s the basic of it; now here is the meat of it all. When you overpay the premium on a Universal Life policy, the extra money goes into an investment account attached to the insurance. The investment account is separate from the insurance and it can pretty much be accessed just like other investment accounts. It can also be used to pay premiums on the insurance or as collateral for a loan. It is also 100% creditor protected and you maintain control of it for as long as you want.

If you’re still confused and not sure how this is better than anything else, this case study should prove helpful.

Little Timmy is 6 months old. His dad purchases a Universal Life policy on Little Timmy with a death benefit of $150,000. Timmy’s Dad makes Timmy’s mom the beneficiary of the insurance policy. The cost for insuring Little Timmy with $150,000 of insurance is $49.50/month. For as long as Dad continues to pay $49.50/month, Little Timmy will be insured for $150,000 for the rest of his life. This makes dad happy because he knows that if Timmy becomes uninsurable for some reason in the future, no one can take away the $150,000 insurance he already has.

Now here’s where things get interesting.

Let’s suppose dad overpays the monthly premium. Instead of $49.50, dad pays $150/month. He is not obligated to do so, in fact he only really has to pay $49.50. But the extra $100.50 goes into the investment account attached to the insurance where it can grow with special tax deferral advantages.

The below table shows an illustration of how this all works. In Year 1, dad pays a total $1,800 to the insurance company. $594 goes towards the insurance premiums and $1,206 goes into an investment account that we will invest in a mutual fund with a 4.78% rate of return. The “Accumulation Fund” represents the investment account and the “Total Surrender Value” column represents how much money can be taken out of the account. The “Insured Death Benefit” column shows how much money is paid out to the policy beneficiaries if the insured dies. Since the insured is a child, parents tend to be more concerned with the accumulation fund. However, if something were to happen to the insured, the benefit paid out would include both the accumulation fund plus the $150,000 insurance.

Year	Age	Annual Premiums Paid	Weighted Average Yield (including the bonus)	Accumulation Fund	Total Surrender Value	Shuttle Fund (Before Taxes)	After Tax Withdrawals	Extended Insurance	Insured 1 Death Benefit
1	2	1 800.00	4.78 %	1 212	1 212	0	0	2	151 212
2	3	1 800.00	4.78 %	2 482	2 482	0	0	4	152 482
3	4	1 800.00	4.78 %	3 812	3 812	0	0	7	153 812
4	5	1 800.00	4.78 %	5 206	5 206	0	0	10	155 206
5	6	1 800.00	4.78 %	6 666	6 666	0	0	14	156 666
6	7	1 800.00	4.78 %	8 196	8 196	0	0	18	158 196
7	8	1 800.00	4.78 %	9 799	9 799	0	0	23	159 799
8	9	1 800.00	4.78 %	11 477	11 477	0	0	29	161 477
9	10	1 800.00	4.78 %	13 236	13 236	0	0	35	163 236
10	11	1 800.00	4.78 %	15 079	15 079	0	0	40	165 079
11	12	1 800.00	4.78 %	17 010	17 010	0	0	44	167 010
12	13	1 800.00	4.78 %	19 030	19 030	0	0	47	177 994
13	14	1 800.00	4.78 %	21 142	21 142	0	0	50	190 919
14	15	1 800.00	4.78 %	23 348	23 348	0	0	52	203 587
15	16	1 800.00	4.78 %	25 650	25 650	0	0	53	216 015
16	17	1 800.00	4.78 %	28 049	28 049	0	0	55	228 217
17	18	1 800.00	4.78 %	30 549	30 549	0	0	57	240 210
18	19	1 800.00	4.78 %	33 153	33 153	0	0	58	252 007
19	20	1 800.00	4.78 %	35 868	35 868	0	0	59	263 620
20	21	1 800.00	4.78 %	38 700	38 700	0	0	61	275 058
21	22	1 800.00	4.78 %	41 657	41 657	0	0	62	286 328
22	23	1 800.00	4.78 %	44 748	44 748	0	0	64	297 438
23	24	1 800.00	4.78 %	47 981	47 981	0	0	115	308 394
24	25	1 800.00	4.78 %	51 360	51 360	0	0	115	319 198
25	26	1 800.00	4.78 %	54 894	54 894	0	0	115	329 858

Looking at the table, in year 11, Little Timmy is 12 years old. Annual premiums have remained $1,800/year (i.e. $150/month) and the accumulation fund is worth $17,010. By this point, dad has paid a total $19,800 to the insurance company. By year 12, the amount in the accumulation fund has surpassed the amount that dad has paid into the policy. In other words, at a modest rate of return, dad has more money available than what it cost to have $150,000 of life insurance for Little Timmy plus an investment account. Aiming for a higher rate of return would shorten this timeline even more.

Now let’s skip down to year 23, when Little Timmy is 24 years old. Notice that the Extended Insurance column on the right says 115 in year 23. This means that if dad stops paying premiums in year 23, the accumulated fund, which now has $47,981 in it, can pay premiums for the next 115 years. This also means that if dad runs into some financial hardship at any point in the plan, the premiums can be paid out of the accumulation fund until dad can get back on his feet. In other words, Little Timmy keeps his insurance.

Kleinburg PRIVATE WEALTH

Carte WEALTH MANAGEMENT INC.

I’m Using Universal Life As An Heirloom To My Son —Continued

Let’s say dad wants to transfer the policy to Little Timmy when he is 26 years old. Dad has to worry about his own retirement now and doesn’t want to keep paying for Little Timmy’s insurance. At this point in Year 25 of the policy, Little Timmy is still insured for $150,000 but also has an investment account worth $54,894. Once Little Timmy receives the policy from dad, Little Timmy’s going to have some options. For example, he can cancel the insurance coverage by not paying the insurance premiums and cashing out the policy. In that scenario Little Timmy walks away with $54,894 before taxes.

In another scenario, Little Timmy could continue paying premiums to keep his insurance and also cash out the policy. In this scenario, he still gets his $54K but also keeps his insurance to benefit his own beneficiaries. He could even add more insurance on to it.

Let’s say Little Timmy doesn’t change a thing and gets to become Old Timmy living to age 91. When he dies, his beneficiaries will receive, tax free with full creditor protection, $1,019,403 (See last row in table below).

Year	Age	Annual Premiums Paid	Weighted Average Yield (including the bonus)	Accumulation Fund	Total Surrender Value	Shuttle Fund (Before Taxes)	After Tax Withdrawals	Extended Insurance	Insured 1 Death Benefit
65	66	1 800.00	4.78 %	384 994	384 994	0	0	115	704 224
66	67	1 800.00	4.78 %	398 365	398 365	0	0	115	713 876
67	68	1 800.00	4.78 %	411 932	411 932	0	0	115	723 618
68	69	1 800.00	4.78 %	425 690	425 690	0	0	115	733 454
69	70	1 800.00	4.78 %	439 641	439 641	0	0	115	743 394
70	71	1 800.00	4.78 %	453 784	453 784	0	0	115	753 439
71	72	1 800.00	4.78 %	468 126	468 126	0	0	115	763 600
72	73	1 800.00	4.78 %	482 671	482 671	0	0	115	773 882
73	74	1 800.00	4.78 %	497 433	497 433	0	0	115	784 291
74	75	1 800.00	4.78 %	512 427	512 427	0	0	115	794 834
75	76	1 800.00	4.78 %	527 673	527 673	0	0	115	805 515
76	77	1 800.00	4.78 %	543 200	543 200	0	0	115	816 339
77	78	1 800.00	4.78 %	559 045	559 045	0	0	115	827 308
78	79	1 800.00	4.78 %	575 261	575 261	0	0	115	838 425
79	80	1 800.00	4.78 %	591 909	591 909	0	0	115	849 684
80	81	1 800.00	4.78 %	609 078	609 078	0	0	115	861 083
81	82	1 800.00	4.78 %	626 877	626 877	0	0	115	872 603
82	83	1 800.00	4.78 %	645 458	645 458	0	0	115	884 224
83	84	1 800.00	4.78 %	665 020	665 020	0	0	115	895 905
84	85	1 800.00	4.78 %	685 838	685 838	0	0	115	907 589
85	86	1 800.00	4.78 %	708 284	708 284	0	0	115	919 181
86	87	1 800.00	4.78 %	732 882	732 882	0	0	115	930 542
87	88	1 800.00	4.78 %	760 370	760 370	0	0	115	941 465
88	89	1 800.00	4.78 %	791 802	791 802	0	0	115	951 632
89	90	1 800.00	4.78 %	828 714	828 714	0	0	115	978 714
90	91	1 800.00	4.78 %	869 403	869 403	0	0	115	1 019 403

Consider that $150,000 with 2% inflation over 90 years amounts to $891,470. Even with inflation, the $150,000 policy that Dad bought 90 years earlier will provide Little Timmy’s heirs with the equivalent of $277,933 of today’s dollars.

By age 90, at 49.50/month for 91 years, Little Timmy and his Dad paid $54,054 for $150,000 of life insurance for Little Timmy. As far as leaving a child a financial gift that at a reasonable price offers flexibility, guaranteed payout, creditor protection, tax efficiency and inflation protection, this strategy is a perfect heirloom strategy.

DISCLAIMER

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the simplified prospectus before investing. Mutual funds are not guaranteed and are not covered by the Canada Deposit Insurance Corporation or by any other government deposit insurer. There can be no assurances that the fund will be able to maintain its net asset value per security at a constant amount or that the full amount of your investment in the fund will be returned to you. Fund values change frequently and past performance may not be repeated.

Labour Sponsored Investment Funds ("LSIF") have tax credits that are subject to certain conditions and are generally subject to recapture, if shares are redeemed within eight years. Please note that Mutual Fund Representatives in Alberta are not permitted to sell LSIF.

An investor proposing to borrow for the purchase of securities should be aware that a purchase with borrowed monies involves greater risk than a purchase using cash resources only. The extent of that risk is a determination to be made by each purchaser and will vary depending on the circumstances of the purchaser and the securities purchased.

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.

Investors should educate themselves regarding securities, taxation or exchange control legislation, which may affect them personally. This newsletter is for general information only and is not intended to provide specific personalized advice including, without limitation, investment, financial, legal, accounting or tax advice. Please consult an appropriate professional regarding your particular circumstances.

All non-mutual fund related business conducted by **Kleinburg Private Wealth Management** is not in the capacity of an employee or agent of Carte Wealth Management Inc. Non-mutual fund related business includes, without limitation, advising in or selling any type of insurance product, advising in or selling any type of mortgage service, estate and tax planning or tax return preparation. Accordingly, Carte Wealth Management Inc. is not liable and/or responsible for any non-mutual fund related business conducted by **Kleinburg Private Wealth Management**. Such non-mutual fund related business conducted by Kleinburg Private Wealth Management alone.

Mutual funds and Exempt Market products provided through Carte Wealth Management Inc.

Life insurance products and services provided by Carte Risk Management Inc.

RETURN TO PAGE 1