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Carte WEALTH MANAGEMENT INC.

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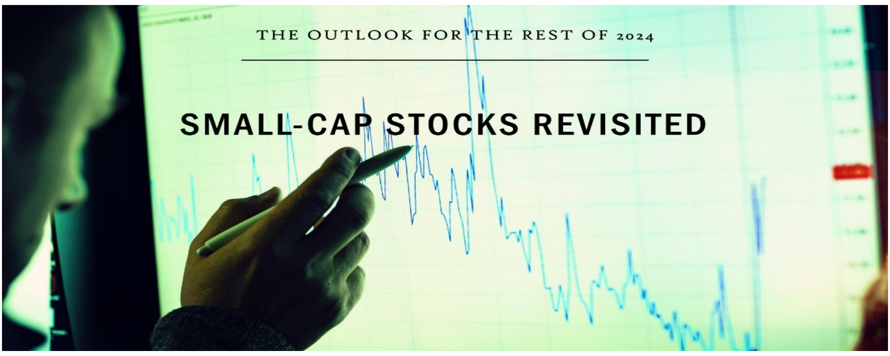
IMAGINE YOUR FUTURE

"The first lesson of economics is scarcity: there is never enough of anything to fully satisfy all those who want it. The first lesson of politics is to disregard the first lesson of economics."- Thomas Sowell

THE WAY I SEE IT

By SERGIO SIMONE



In the first half of 2024, the small-cap sector faced significant challenges, underperforming broader market indexes due to economic concerns and rising interest rates. However, the second half of the year holds promise for a resurgence in the small-cap sector. With anticipated interest rate cuts and progress in reducing inflation, a unique opportunity arises for small-cap stocks to rebound. Investors can potentially capitalize on this by gaining exposure to the sector and positioning themselves for a stronger performance in the latter half of the year.

Several factors influence the performance of small-cap stocks. One key factor is interest rates; when rates are high, borrowing costs increase, which can strain smaller companies with less access to capital. Conversely, anticipated rate cuts can provide a boost. Economic growth also plays a crucial role; stable or growing economies tend to benefit small-cap stocks as consumer spending and business investments rise. Additionally, valuations of small-cap stocks are often more attractive compared to large-cap stocks, making them appealing to investors looking for growth opportunities. Lastly, merger and acquisition activity can drive up small-cap stock prices, as larger companies seek to acquire smaller, innovative firms.

During the first half of 2024, the performance of small-cap stocks significantly lagged behind broader market indexes. The Nasdaq (QQQ) and S&P 500 (SPY) indexes saw impressive gains of 18% and 15%, respectively. In contrast, the Russell 2000 Index (IWM), a key benchmark for small-cap stocks, rose by only 1%, and the S&P Small Cap 600 Index (IJR) slipped by 1%. Despite this challenging environment, the Prudent Small Cap model portfolio outperformed significantly, achieving a remarkable 36% increase.

THE WAY I SEE IT

Looking ahead to the second half of 2024, the outlook for small-cap stocks could improve under certain conditions. If the Federal Reserve cuts interest rates in response to cooling inflation and economic growth remains stable, small-cap stocks may see a rebound. However, the economic landscape presents challenges. Recent data indicates a weakening economy, with GDP growth slowing to 1.4% in the first quarter of 2024, down from 3.4% in the previous quarter. Additionally, the upcoming earnings season may reveal the impact of higher interest rates, potentially leading to lower guidance from companies.

Overall, while there are potential catalysts for a small-cap recovery, such as interest rate cuts and stable economic growth, the near-term outlook remains uncertain due to economic headwinds and the pressures of the earnings season.

Let's dig a little deeper into the factors that could effect the small-cap sector and its recovery.

ECONOMIC CONDITIONS: Small-cap stocks are often more sensitive to economic changes. During periods of economic growth, they can outperform larger companies due to their agility and growth potential. Conversely, during economic downturns, they may suffer more due to limited resources and higher volatility.

The outlook for the U.S. economy in the latter half of 2024 is mixed but generally positive. Economic growth is expected to decelerate, with real GDP growth projected to be around 0.7% for the year. Consumer spending is likely to slow down due to factors like diminished savings and the restart of student loan payments. However, the labor market remains strong, supporting overall income levels. Inflation is anticipated to moderate, potentially leading the Federal Reserve to start cutting interest rates by mid-2024. Overall, while growth may be slower, the economy is expected to avoid a recession and maintain positive momentum.

Based on this outlook, I would give Economic Conditions a 60% positivity ranking.

INTEREST RATES: Higher interest rates can increase borrowing costs for small-cap companies, which often rely more on debt financing. This can squeeze their profit margins and reduce growth prospects. Conversely, lower interest rates can provide a boost by reducing these costs.

Interest rates are expected to gradually decline over the remainder of 2024. Many experts predict that the Federal Reserve will implement rate cuts in the second half of the year, which should lead to a decrease in mortgage rates. For instance, Fannie Mae forecasts that the average 30-year fixed mortgage rate will drop to around 6.7% by year-end. Similarly, the Mortgage Bankers Association anticipates rates to fall to approximately 6.1%.

Based on this outlook, I would give the Interest Rate factor a 75% positivity ranking.

MARKET SENTIMENT: Investor sentiment plays a significant role. Small-cap stocks can be more volatile and are often seen as riskier investments. Positive sentiment can drive their prices up, while negative sentiment can lead to sharp declines.

The market sentiment for the remainder of 2024 is expected to be cautiously optimistic. Financial markets are starting the year with a solid fundamental backdrop, including a persistent US economic expansion and monetary policymakers inclined toward easing. However, asset valuations may make it challenging for returns to surprise on the upside, as much of the good news is already priced in. Additionally, factors such as inflation, interest rate policies, and geopolitical risks could influence market dynamics. Overall, while there are opportunities, investors should remain vigilant and adaptable to potential surprises.

Based on this outlook, I would give Market Sentiment a 65% positivity ranking.

ACCESS TO CAPITAL: Small-cap companies may face challenges in accessing capital compared to larger firms. This can impact their ability to invest in growth opportunities or weather financial difficulties.

The outlook for small-cap companies accessing capital in 2024 appears promising. Analysts suggest that as the Federal Reserve adopts a more dovish stance, financial conditions are expected to ease, making it easier for small-cap companies to secure financing. Additionally, the stabilization and potential improvement in fundamentals, particularly for U.S. regional banks, could further support small-cap access to capital. Overall, the combination of easing financial conditions and improving fundamentals bodes well for small-cap companies seeking capital in the latter half of 2024.

Based on this outlook, I would give Access to Capital an 80% positivity ranking.

REGULATORY ENVIRONMENT: Changes in regulations can disproportionately affect small-cap companies, which may have fewer resources to comply with new rules compared to larger firms.

The regulatory environment for small-cap companies for the balance of 2024 is expected to be challenging but manageable. Regulators are likely to maintain a strong focus on rulemaking, surveillance, and enforcement, which means small-cap companies will need to stay vigilant and proactive in their compliance efforts. Economic uncertainties and election-year dynamics could add to the complexity, requiring companies to adapt quickly to changing conditions. However, there are also opportunities for growth, especially as regulatory frameworks evolve to address new areas like digital assets and ESG (Environmental, Social, and Governance) considerations. Overall, staying informed and agile will be key for small-cap companies navigating the regulatory landscape this year.

Based on this outlook, I would give the Regulatory Environment faced by small-cap companies a 55% positivity ranking.

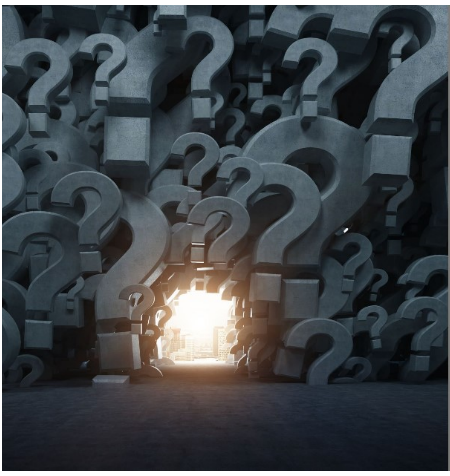
SECTOR PERFORMANCE: The performance of specific sectors can also impact small-cap stocks. For example, if a large portion of small-cap companies are in a struggling sector, it can drag down the overall performance of small-cap indexes.

The small-cap sector is expected to perform strongly over the remainder of 2024. Analysts, including Tom Lee from Fundstrat, predict that small-cap stocks could surge by up to 50% this year. This optimism is driven by projected earnings growth, favorable valuations, and potential revenue growth outpacing that of large-cap stocks. Additionally, if the Federal Reserve cuts interest rates, small-cap companies, which are more sensitive to interest rates, could benefit significantly. Overall, the outlook for small-cap stocks appears promising, with potential for substantial gains.

Based on this outlook, I would give Sector Performance an 80% positivity ranking.

When I evaluate these six factors, I come up with an average positivity score of 69%. For me, this number indicates that there is a better than two in three chance that the small-cap sector will bounce back in the back half of 2024. I would go so far as to state that I believe they will outperform their large-cap counterparts.

This may be a good time to review your portfolio and re-evaluate your allocation to the small-cap sector.



TAX-FREE MONEY FROM YOUR CORPORATION

LEARN HOW TO GET MONEY OUT OF YOUR BUSINESS

In most scenarios, if you take personal money out of a Canadian Controlled Private Corporation (CCPC), you will need to pay taxes. In working with our Life Plan clients, I've found that this becomes a bigger problem as people get older and their corporations hold larger sums of cash and other assets. These people tend to be at a point where they want to downshift their careers and start enjoying their lives more, but that can mean pulling out a larger salary or dividend from their corporation to fund that lifestyle. And that means more taxes.

A challenge for anyone that owns a Canadian controlled private corporation (CCPC) is how to take personal money out of the company in the most tax-efficient way possible. Whether you pay yourself a salary or a dividend, you'll inevitably have to pay income taxes on that money. It can make it seem like your money is trapped in the company and should only be withdrawn when necessary. However, an often-overlooked way to get money out of a company tax free is by paying yourself a capital dividend from the corporation's capital dividend account (CDA).

Unlike other dividends which are taxable, these dividends have zero impact on your net income. This is because a capital dividend is equivalent to drawing from a company's capital base, whereas regular dividends are paid from a company's retained earnings.

The capital dividend account is a great way to take money out of your company tax free.

If you have a capital dividend account with a $1,000 balance, that means you can take $1,000 out of your company as a capital dividend and pay absolutely no tax on that money. However, the CDA is a notional account which means it doesn't actually have money in it. For example, you could have a corporate CDA balance of $100,000 but only have $25,000 of actual cash in your corporate chequing account. This means you could draw that $25,000 out of your corporation and declare that $25,000 as a tax-free capital dividend. In doing so, your CDA balance would drop to $75,000 and the company would have $0 in it's chequing account.

So how do we turn corporate money into capital dividends so that we can pay ourselves a tax-free dividend?

The most popular way to turn corporate money into a capital dividend is via insurance. Certain types of insurance policies when paid to a corporation on the death of the insured, will increase the balance of the corporate dividend account. Doesn't do you much good though if you're dead but it can be a huge help for the estate. The other, lesser-known way of increasing the balance of your capital dividend account is with capital gains and mutual funds.

Here's how: Just like an individual, when a corporation realizes a capital gain, 50% of the gain is taxable and 50% is exempt from taxes. Recently, new capital gain rules have changed the exemption for gains over $250,000; however, to keep it simple, let's just stick with the 50% exemption rule.

When a company realizes a capital gain, the portion of the capital gain that is tax exempt is added to the CDA. For example, if a corporation sells an investment worth $100,000 and that same investment has an adjusted cost base of $50,000, then this corporation would realize a capital gain of $50,000. Of that gain, $25,000 would be taxable at the corporation's tax rate and $25,000 would be exempt from taxation. As a result, the CDA balance would increase by $25,000 because that is the amount of the exempt portion of the gain. Many mutual funds, particularly certain corporate class mutual funds can be used to increase a corporations CDA and provide tax free income.

Often, I'll come across individuals whose private corporations contain a mix of investments including real estate, mutual funds and ETFS, stocks, GICs, and cash in a bank account. If such an individual is looking to take money from their corporation, I would first look to see the balance of the CDA. If there is a large balance, then it could make sense to pay oneself a capital dividend using the GIC.

For example, suppose you have $300,000 in a GIC in your corporation. You also have a CDA balance of $100,000. You could sell $100,000 of the GIC to cash and pay yourself that money as a personal capital dividend. You would net $100,000 of personal spending money and pay zero dollars in taxes. True, your CDA balance would drop to zero, but you could increase that balance again in the future by realizing capital gains in the mutual fund portfolio.

Remember, the exempt portion of the capital gain would be added to the balance of your Capital Dividend Account (CDA) and that would open up new money to be paid out cash free.

The capital dividend account is an often-overlooked tax benefit. A proper plan could help an individual who owns a Canadian Controlled Private Corporation create a tax-free source of money to fund lifestyle needs and wants.

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BEHAVIORAL FINANCE BY KPW

As lifestyle financial planners, we spend a great deal of time and effort working with clients to establish and help them achieve the lifestyle they envision and hold on to it no matter what happens. What this looks like varies from one individual to the next, but practically speaking this translates to making the most of your life while you still can and ensuring that you never run out of money.

My colleague and I were recently discussing a trend we have noticed not only within our client base but on a much greater level. What we are seeing is a growing amount of people shifting their mindset away from saving every cent they can and **'taking it to the grave'**, towards doing what we can today, while we still can.

The goal is to find the sweet spot between recklessly spending until we run out of money, and being so focused on saving that you end up sacrificing more than you need to. Take for example, a recent interaction we had with a client where they expressed their desire to actually see the smiles on their children's (and grandchildren's) faces, and watch their children enjoy what they have to offer them. In other words, they don't want to simply leave behind a hard-earned legacy for them to enjoy once they are gone. Rather, they focus on taking large family trips together while everyone is alive and well, as opposed to leaving behind larger inheritances. Whether it's coincidence that we have been shifting our practice to this strategy over the last few years, or vice versa, the stars seem to be aligned.

If we examine this topic through the **"no matter what happens"** lens, we must look towards ways to offer protection. One of our taglines at KPW is **"imagine your future",** now I invite you to imagine a future with perfect health. As ideal as this would be, it is next to impossible in reality. Thus, we need to consider whether your lifestyle goals would still be met if you needed to utilize a large portion of savings for expenses related to a serious medical condition.

Some of these costs associated with major illness include but are not limited to the loss of income, treatment and associated travel costs, and home care costs. As is the case with most insurances, the best time to plan for the unexpected is while you are healthy, as once you become ill your options become limited. Critical illness insurance provides additional funds if you become seriously ill and is designed to help pay for costs associated with life altering illnesses. The idea is that it allows you to focus on your health above all else. Should you receive a diagnosis and survive one of the covered illnesses listed in the policy, you will receive a lump sum, tax free, cash payment to utilize as you see fit.

Most if not all of us know someone who has been impacted by serious health issues. Critical illness insurance offers peace of mind knowing that your lifestyle will be protected if you are affected, allowing you to focus on your recovery. Providing adequate care for someone who is seriously ill often requires a great amount of time, energy and money. For those who become seriously ill, aside from treatment they may require help with everyday tasks as they recover, including dressing and bathing, driving, shopping for groceries, preparing meals, doing housework and laundry, gardening, lawn care and snow removal, and tending to children or pets. Having a loved one to help is ideal, but oftentimes hired help is required, and costly. No one wants to think about themselves in this situation, but the good news is there are options and resources that can help when the proper planning is put in place.

We all must be cognizant of the fact that although we are very fortunate to have Government health coverage, we are not fully protected when it comes to serious illnesses.

The Federal Canada Health Act ensures that the Provincial Government must provide residents with basic medical and emergency services, namely including visits to doctors and specialists, and basic hospital costs for medically necessary procedures.

While we enjoy a glorious public healthcare system, there are common types of treatments and services that aren't covered at all or only receive a small amount of coverage. Some of these include alternative treatments and experimental drugs, travel and accommodation for treatments away from home, adaptations to home or vehicle to accommodate your condition, home nursing care, wigs, new clothing needed due to a drastic weight change, hospital beds or other home equipment, Physiotherapy (may be partially covered in your province or territory), and treatments and surgeries outside of Canada.

In addition to critical illness insurance, other health insurances that can help are long term care insurance (to help cover the cost of institutional or home care), Disability Insurance (replaces a portion of your income if you become disabled and are unable work), and Personal health insurance (help lower your risk of being burdened by expenses for preventive care or medical bills from an illness).

Another avenue for covering these costs is private coverage through an employer. Some employers offer supplemental health insurance through work, such as disability insurance, that may offer some relief in these situations, but often cannot be relied upon entirely.

Such plans typically pay about 60-70% of income, while expenses during an illness remain unchanged or more often increase, which simply doesn't add up if there is no protection in place. The need for additional coverage begins with understanding how much, if any, insurance you have in place and going from there. There are many variables to consider, but this is something we can help you with.

Critical illness insurance is coverage when it counts, protection while you are alive. Being diagnosed with a serious illness can change your life, but mitigating the impact it has on your lifestyle is what we aim to achieve.

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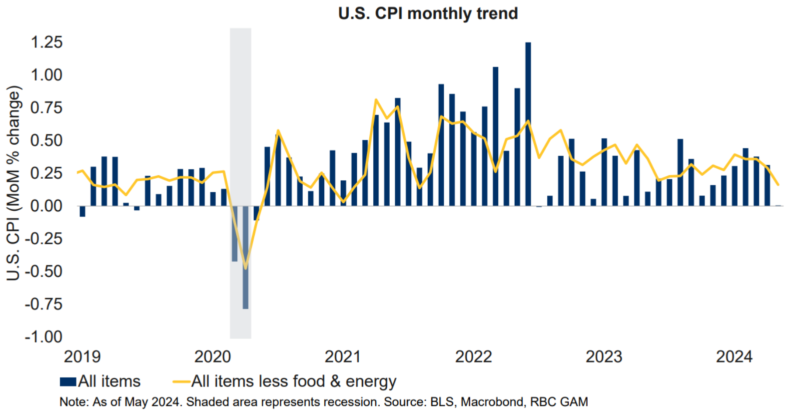
PROTECTING YOUR LIFESTYLE BY KPW

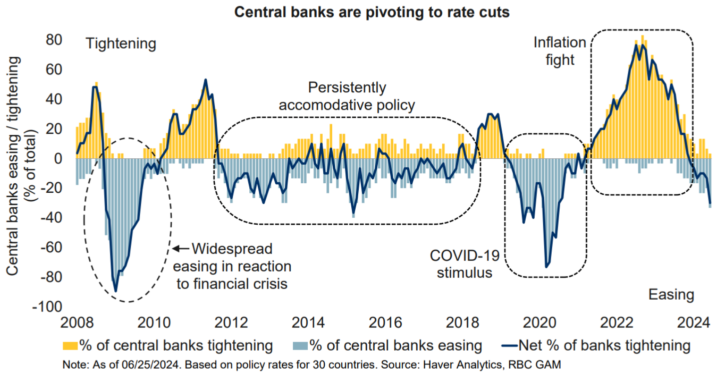
Following are a list of charts that emphasize the state of the current economy.

U.S. inflation finally improving again



RBC Global Asset Management 4

The world's central banks are pivoting gradually from hikes to cuts



RBC Global Asset Management 10

The era of developed-world rate cuts begins

Jurisdiction	Central bank action
Switzerland	Cut rates in March
Sweden	Cut rates in May
Canada	Cut rates in June
Eurozone	Cut rates in June
U.K.	August cut?
U.S.	September cut?
Japan	Hiking!

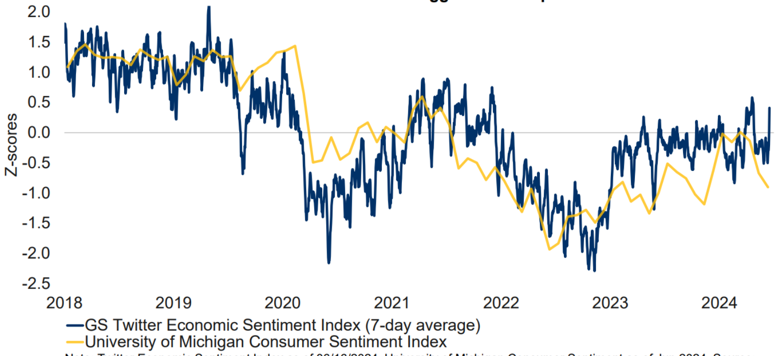
Note: As at 06/25/2024. Source: RBC GAM

RBC Global Asset Management 11

Disclaimer

Real-time economic sentiment is looking just fine

Twitter Economic Sentiment in the U.S. suggests more optimistic sentiment ahead



Note: Twitter Economic Sentiment Index as of 06/16/2024, University of Michigan Consumer Sentiment as of Jun 2024. Source: Goldman Sachs Global Investment Research, University of Michigan, Macrobond, RBC GAM

RBC Global Asset Management 13

Powerful forces push and pull on Canadian home prices – prices should go roughly sideways but with high uncertainty

Canadian housing drivers

Poor housing affordability

Sharply higher mortgage rates

?

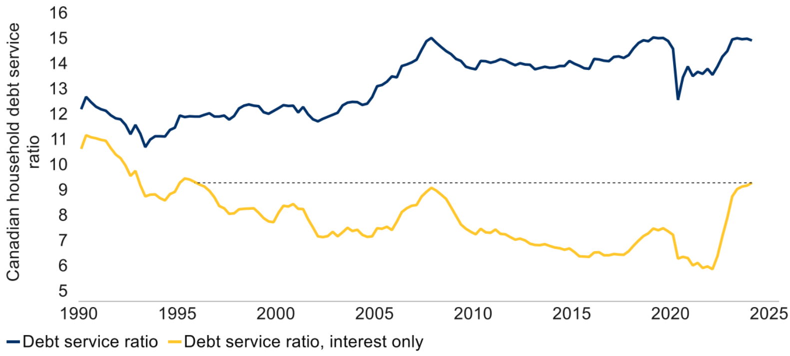
Home buyer psychology: has the mania finally cracked, or is it just waiting for lower rates?

High immigration

Supply constraints

Debt servicing costs rising for Canadian households

Debt servicing costs at multi-decade high for Canadian households

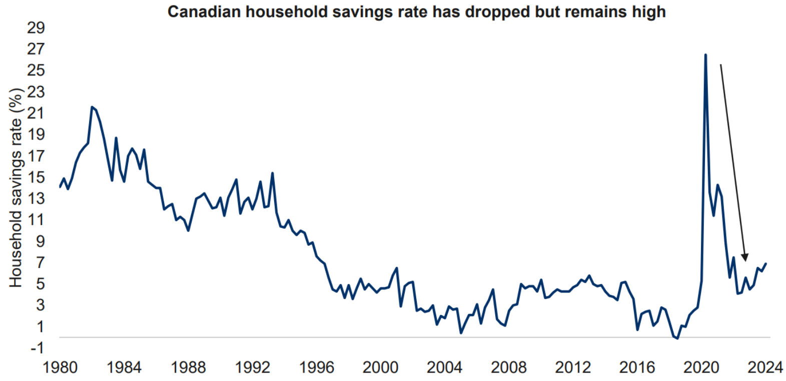


Note: As of 2024 Q1. Source: Statistics Canada, Macrobond, RBC GAM

RBC Global Asset Management 20

Canadian household savings rate has fallen, but is still high

Canadian household savings rate has dropped but remains high



Note: As of Q1 2024. Source: Macrobond, RBC GAM

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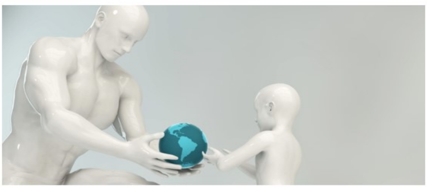
LIFESTYLE FINANCIAL PLANNING BY KPW

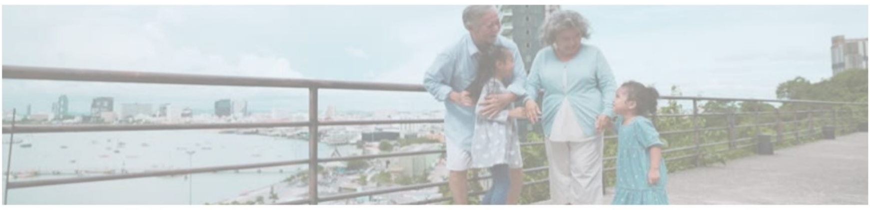
PRIVATE WEALTH:
SOLUTIONS FOR HIGH-NET-WORTH INVESTORS

CREATING A LEGACY OF FINANCIAL AFFLUENCE



IT'S NOT ONLY ABOUT MONEY

INTERGENERATIONAL WEALTH TRANSFER



By Sergio Simone

One of the greatest concerns for high-net-worth individuals when contemplating intergenerational wealth transfer is how their heirs will handle the inheritance. Many worry that their children or grandchildren may lack the financial literacy needed to manage a significant windfall responsibly. The concern does not end here. Other major concerns include:

- Maintaining Family Harmony
- Tax Efficiency
- Preserving The Family Legacy

These concerns highlight the importance of comprehensive planning and education to prepare the next generation for managing their inheritance effectively.

Research indicates that Canada's high-net-worth population is aging, with over 40% of millionaires now aged 65 and older. This group, comprising nearly a quarter of a million households, has been the fastest-growing segment of the high-net-worth market, expanding by more than 20% in the past five years. As baby boomers (born between 1946 and 1965) continue to retire, this affluent demographic is projected to nearly double in size over the next decade.

Together, high-net-worth and ultra-high-net-worth individuals account for 42% of the volume of expected transfers through 2045 but only account for 1.5% of households.

This shift marks the largest wealth transfer in history, yet many high-net-worth families may not be prepared. Alarmingly, 32% of wealthy Canadians worry about their heirs' ability to manage their inheritance, and 36% believe their children lack financial literacy. Beyond estate planning, clear, two-way communication between family members is crucial. It helps heirs understand the family vision and strengthens relationships through honest discussions.

Talking about money and succession planning can be tough. Parents might worry about sharing too much with young kids, fearing it could stop them from finding their own way or lead to bad decisions. No matter the kids' age, discussing wealth and what happens if a parent dies is uncomfortable. But putting it off can leave families unprepared. Planning ahead is crucial for a smooth wealth transfer.

It's not just about the kids, though. By 2026, women in Canada are expected to control about half of all personal wealth, especially as more women become single, divorced, or widowed, and outlive their spouses. Women are becoming key players in financial planning, not just beneficiaries, but handling family finances can be a heavy burden for a grieving partner. Couples should discuss finances together first to ensure they're on the same page and prepared for any unexpected events. These talks are tough but essential for a smooth transition.

Talking about money and inheritance can be tricky, but getting help from financial pros like those at KPW Financial can make it easier. They bring expertise and a neutral perspective, helping families navigate emotional conversations. They can also bridge the gap between parents and adult children, opening up financial discussions.

Financial pros can help plan for surprises like capital gains tax on valuable assets, such as a family cottage. When someone passes away, assets can transfer to a spouse tax-free, but passing them to children might trigger a capital gains tax. If not planned for, the estate might have to sell the cottage to pay the tax instead of keeping it in the family.

When choosing a financial professional, find someone you trust and connect with to discuss your future and finances. Your financial professional should be someone the entire family has confidence in. This person should be someone who understands trust vehicles, is comfortable addressing all family members and can easily communicate and educate the family on the most effective wealth transfer strategies.

Another crucial attribute your financial pro should possess is an in-depth understanding of the “Family Legacy” that the high-net-worth individual wishes to encompass.

The family legacy is more than just financial assets. It includes the values, traditions, and stories that define the family’s identity. HNW families often have a strong desire to ensure that their wealth supports these elements, fostering a sense of continuity and purpose across generations.

Before beginning any process, the financial professional should clearly articulate the core values and vision that the family holds dear. This might include philanthropy, entrepreneurship, education, or other priorities. Documenting these values can serve as a guiding principle for future generations.

Regular, transparent conversations about wealth and legacy are crucial. Encourage all family members to participate in discussions about the family’s financial goals and how they align with the family’s values. This helps to build trust and ensures everyone is on the same page.

Financial literacy is key to ensuring that heirs can manage their inheritance responsibly. Provide education and resources to help them understand the complexities of wealth management, investment, and philanthropy. Consider involving them in family business or philanthropic activities to give them practical experience.

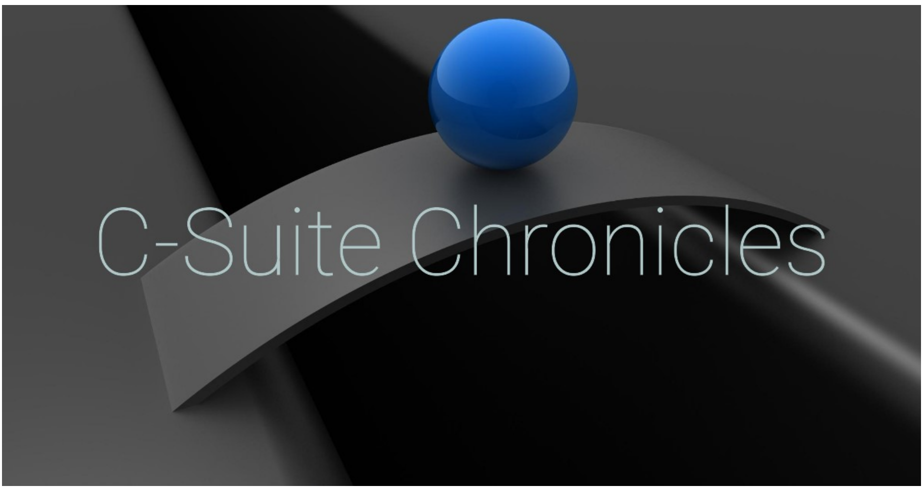
Work with financial and legal professionals to create an estate plan that reflects the family’s values and goals. This plan should address tax efficiency, asset protection, and the smooth transfer of wealth. Trusts, foundations, and other structures can be used to ensure that wealth is managed in line with the family’s vision.

Many high-net-worth families use philanthropy as a way to express their values and make a positive impact. Establishing a family foundation or donor-advised fund can provide a structured way to support causes that are important to the family, while also involving younger generations in charitable activities.

Identify and prepare future leaders within the family who can carry forward the family’s legacy. This might involve formal training, mentorship, and gradually increasing their responsibilities within the family business or philanthropic endeavors.

Navigating the complexities of wealth preservation and legacy planning often requires the expertise of financial advisors, estate planners, and legal professionals. These experts can provide valuable insights and help families create strategies that align with their unique goals and circumstances.

Preserving the family legacy is a multifaceted endeavor that goes beyond financial planning. By defining core values, fostering open communication, educating the next generation, and seeking professional guidance, high-net-worth families can ensure that their wealth supports their long-term vision and continues to reflect their principles for generations to come



Advisor.ca

EMPLOYEE OWNERSHIP TRUSTS TAKE SHAPE

Federal government passed new rules and incentives for EOTs in June

By Ian Bickis, Canadian Press, July 12, 2024

Three times a year, the 600-or-so employees of Friesens Corp. gather in front of the printing house to accept envelopes, each one holding a cheque for the workers' share of company profits.

They all get a cut because they're all owners.

The company based in the small town of Altona, Man. is set up as an employee ownership trust, which, just like it sounds, is a way to set up ownership of a business for the benefit of employees.

It's also a way for a business owner to cash out without having to sell to a competitor or private equity, and it's much more likely in Canada after the federal government passed new rules and incentives for it in June.

The option has added importance because about three-quarters of small business owners plan to exit their company over the next decade, according to a Canadian Federation of Independent Business poll released last year, creating the need for more succession choices.

"It doesn't matter if you're a rich white kid from down the street, or a newcomer from the Philippines that just arrived with their family, you have equal participation in our ownership program," said Chad Friesen, chief executive of Friesens Corp.

Unlike a model where a few wealthier employees outright buy the business, employee ownership trusts are structured in a way that the workers don't have to put up money and don't own shares directly, making for a much wider potential distribution of the benefits.

Rather than being based on how many shares someone has, payouts are determined mostly in proportion to salary. How long people have been at the company is also factored into the bonus.

The model means that company profits are distributed much more widely than if one owner was taking in millions of dollars, and it stays more in the community, said Friesen.

"It's a bit of a mind shift that we're not trying to have big payouts for a few. We're trying to have good strong payouts for everyone," he said.

"We're sharing kind of life-changing dollars on an annual basis where people will be able to, you know, fund a home renovation, send your kids to school, put more money away for retirement, those types of things."

Friesens Corp., founded in 1907, was an early pioneer in employee ownership models, experimenting back in the 1950s, and has been under its current trust since 2010.

With no template or government structure though, the company had to jump through a lot of legal and accounting hoops to make it work, said Friesen (who is not a member of the founding family).

The new legislation, passed into law as part of a range of measures in Bill C-59 on June 20, provides the structure to make it much easier.

The rules make it easier to have the company pay out the owner, freeing employees from having to put up funds, said Tara Benham, national tax leader at Grant Thornton.

“Essentially it allows the company to become the bank in a much more tax-efficient way.”

There’s still the potential to borrow money from a bank to help in the payout, but it’s tougher to get, so sellers often accept payback over time from the company.

It’s not nearly as straightforward as outright selling a company, so advocates like the Canadian Employee Ownership Coalition, of which Friesen is a part, have been pushing for added incentives.

The federal government obliged by making tax-exempt the first $10 million of capital gains on a company sale. The savings amount to about $3.5 million, and could mean a complete exemption for many smaller companies, said Benham.

“There’s now a significant incentive to sell to the employees.”

There’s reason for the government to encourage the model because it would mean fewer companies being bought by foreign firms, she said.

“It’s going to keep ownership in Canada. It localizes ownership more because, intuitively, the employees are locals.”

Friesen said the ownership model is a big reason why the company still exists and helps support the small town of about 4,600 people.

“The family could have sold this thing to some consolidator or some bigger company. And we would have been, over time, gobbled up and we wouldn’t exist in this community anymore,” he said.

Many other companies will have to navigate handing over their business in the next decade, with more than $2 trillion in assets expected to change hands, the CFIB poll said.

There are indications that many could choose a model that does well by their workers.

Some 90% of respondents said ensuring current employees are protected was the most important factor they’re considering, ahead of getting the highest possible price at 84%.

But the model is not without its risks.

Figuring out how to actually run the company under a trust once the owner is gone will be complicated, said Benham.

“One of the challenges is how to manage this business as a collective that really didn’t start as a collective.”

There are templates, thanks in part to countries like the U.K. opening up employee ownership trusts as of 2014 and the U.S. also having an option.

For owners that can figure it out though, the long-term benefits can be substantial, said Friesen.

“It’s an option to keep more decision-making influence and more of that economic sovereignty in our communities, in our provinces and in the country.”

Chris Heakes, CFA, M.Fin., Director, ETF Portfolio Manager

3 Reasons to De-Risk Your Portfolio

With markets testing record highs, is there still a case for low volatility? Portfolio Manager Chris Heakes assesses perceived future risks in Canadian, U.S., and global markets—and reveals three ways investors can de-risk their portfolios.

Recently, equity markets have approached, and in some cases surpassed, record highs. But from politics to policy, there are nonetheless many moving parts that can cause markets to fluctuate—sometimes swinging dramatically up and down—which can create a challenging environment for investors. With so much happening in the world today, we could be in store for more volatility. Here are three reasons to consider de-risking your portfolio.

1. A Catch to Interest Rate Cuts

For the first time in over four years, the Bank of Canada (BoC) cut its policy interest rate, becoming the first G7 nation to do so—beating the European Central Bank (ECB) by one day. With the odds heavily in favour of a decrease (at about an 80%) prior to the event, the market was largely expecting the outcome. BoC Governor Tiff Macklem acknowledged the inflation rate has moved closer to the 2% target, suggesting the bank's monetary policy no longer needs to be as restrictive, which is good news for investors. But as it often happens, good news can come at a price. Recently, gross domestic product (GDP) growth has been a little weak, the job market is sending mixed signals, and Canadian productivity has been relatively stagnant compared to the U.S. While rate cuts are great for equities, variable mortgages, and corporations seeking to borrow, there is another—implicit—side to the story, which is the economic backdrop is not as strong as it once was.

"But as it often happens, good news can come at a price."

As a result, it's too early to announce a big momentum story off the back of interest rate cuts. But as more start rolling in, it can unlock value in sectors that were negatively impacted by the higher for longer interest rates, such as Utilities, Real Estate, and Consumer Staples. A low volatility strategy can help you manage risk, while also benefiting from falling interest rates. In terms of your Canadian allocation, the **BMO Low Volatility Canadian Equity ETF Fund** provides exposure to equities and is overweight defensive sectors (like those mentioned above).

2. The U.S. Federal Reserve is in a Holding Pattern

The story is quite different south of the border, where interest rate cuts are proving much more difficult to come by. At the start of the year, markets were pricing in six cuts from the U.S. Federal Reserve (Fed) in 2024. At the time of writing, economists are predicting one or two, which is a long way from where it began. In the U.S., the economy and consumers remain more resilient and inflation stickier. Given this environment, there is added risk. Look at the S&P 500, for example. The index gained more than 300 points in a recent broad-based rally1 predicated on lower interest rates—which we may or may not see.

To gauge the level of risk, we often look to the VIX, a popular measure of equity volatility. The index, however, has been sitting around 12 or 13,2 which is relatively subdued and below the historical average.3 It's important to note: the VIX can change in a hurry—as was the case last October when the index spiked for a stint, causing downside in equity markets—and this may be the calm before the storm. Looking ahead to October and November, we are seeing a bump in volatility associated with the upcoming U.S. presidential election. So, there may be risks on the horizon.

"This may be the calm before the storm."

Disclaimer

For your U.S. allocation, you have to think a bit differently than Canada. The big driver has been Technology, as many of us know. But we can't lose sight of how much Information Technology (IT) is in the S&P 500 index—there's a weight of about 30%. And that's in addition to other companies that we commonly consider to be tech (like Google, Netflix, and Amazon), but are now categorized as Communications Services or Consumer Discretionary instead. By piecing these together, real tech companies make up almost half the index. Stocks are nearing (or surpassing) all-time highs and valuations are getting stretched. This is where diversification can be a tool to help your portfolio benefit under different economic conditions. For instance, the **BMO Low Volatility U.S. Equity ETF Fund** can provide a hedge against growth. If Technology continues to deliver, having that exposure is great. At the same time, if there is a correction in volatility, having defensive tools can help. We often say that low volatility is about "winning by not losing"—which means rather than aiming for the highest possible returns, you can reach for steady growth and set yourself up for future success by preserving capital during negative equity markets.

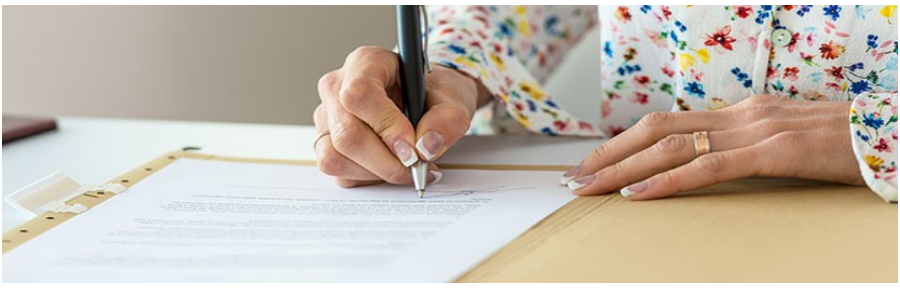
3. Escalating Geopolitical Tensions

Lastly, we must consider the geopolitical environment we are in. The Middle East is a powder keg right now, the conflict in Russa and Ukraine seems relentless, and there is a lot of sabre-rattling by China. With the ongoing unrest, ensuring you have defensive tools in your portfolio can help you be proactive rather than reactive.

A low volatility strategy, like the **BMO Global Low Volatility ETF Fund**, can help manage risks from geopolitical events on the equity side of your portfolio and provide a more defensive posture. There are also many ways to build around the edges of your portfolio to make it more resilient. We recently launched the **BMO Gold Bullion ETF (Ticker: ZGLD)**, which provides cost effective exposure to gold—and you don't necessarily need a lot of it to make a difference. When markets have been at their worst, gold is often the thing that is shining. As Nobel laureate Harry Markowitz once said, "diversification is the only free lunch in investing." So, it's important to ensure your allocation between equities, fixed income, and alternatives (like gold), are well positioned and dialed into the right range. Having tools that can work in different environments can help prepare you for what's to come.

CANADIAN INHERITANCE TAX: IS THERE SUCH A THING?

Author: Tom Drake. Source: MapleMoney



A common misconception among Canadians is that they can be taxed on money they inherit. The truth is, there is no inheritance tax in Canada. Instead, after a person is deceased, a final tax return must be prepared on income they earned up to the date of death. Any monies owing are paid out from the estate assets before the remaining funds are transferred to the various beneficiaries.

There are other costs involved in settling an estate, however, so it's good to have a basic understanding of how it all works.

Is there an estate tax in Canada?

While there is no such thing as a Canadian inheritance tax, there is an estate tax of sorts. After a person dies, the CRA makes sure that taxes have been paid on any income they earned up to the date of death. If there is a tax balance owing, the executor of the estate is responsible to file a deceased tax return.

For example, let's say Bob passes away on June 30th, 2020. Assuming that Bob's taxes were filed for the previous year, he would be fully paid up to December 31, 2019. But what about the income Bob earned between January 1st and June 30th, 2020? Because the filing deadline isn't until April of 2021, Bob will not have paid the tax on his 2020 income at the time of his passing.

In this situation, the executor of Bob's estate will have to file a final tax return prior to the 2020 deadline, to make sure all of Bob's income has been reported. If there is a balance owing, the executor will need to arrange for payment out of the funds in Bob's estate. If, on the other hand, Bob was due for a refund, the CRA would issue a cheque payable to Bob's estate.

A tip for executors: Once you've filed the final tax return and paid the taxes, make sure you receive a clearance certificate from the CRA. This confirms that there are no further taxes owing, and you can proceed with disbursing the estate assets to the beneficiaries. If you don't receive the certificate, and the CRA informs you down the road that more taxes are owing, you could be held personally responsible for any taxes owing.

How are estate assets treated for income tax purposes?

Any assets included in the estate are considered to have been sold for fair market value at the time of death. This includes any real estate, businesses, land, investments, even RRSPs. It's important to note that each of these assets will generate income differently, and they are not all taxed the same way. Here are a few examples of how the income from estate assets might be treated:

Example 1: Shirley passes away with $230,000 of individual stock held in a non-registered discount brokerage account. It's determined that the stock has an adjusted cost base of $150,000, leaving Shirley's estate with a capital gain of $80,000. Her executor will need to report $40,000 as income on Shirley's final tax return (50% of $80,000).

Example 2: Bob has $50,000 in RRSPs. As soon as he dies, the full balance of his RRSPs are considered to have been sold, generating an income of $50,000. This amount will be included on the final tax return.

Example 3: John has recently passed away. 15 years ago, he inherited the family cottage from his parents, which, at the time of his death, was worth $500,000. When he inherited the cottage, it was worth $350,000. Because John's parents would have paid any capital gains up to the time of him inheriting the cottage, his estate is required to pay a 50% capital gain on $150,000 ($500,000-$350,000). Thus, John's final tax return will need to report $75,000 of additional income for the sale of the cottage.

Example 4: Sue owned a bungalow which she has rented out for the past 3 years. She originally paid $200,000 for the home, and it's now worth $300,000. Sue passed away on March 31, which generated a $100,000 capital gain as of that date. The income reported on the final tax return will include 50% of the capital gain ($50,000) as well as 3 months of rental income, for January to March.

Cases with a surviving spouse

Where there is a surviving spouse or common-law partner, a non-registered capital property can be transferred to them, without a capital gain having to be reported as income. Eventually, when the spouse passes away, the property will be disposed in their name, and the capital gain reported at that time.

With respect to RRSP and RRIF investments, if an eligible person has been named as a beneficiary, then the income from the investment does not have to be reported, and any tax is deferred. Eligible beneficiaries include a spouse or common-law partner, a financially dependent child or grandchild (under 18 years of age), or a mentally or physically disabled child or grandchild of any age.

Cases with no surviving spouse

With no surviving spouse, common-law partner, or other eligible beneficiary, all estate assets are deemed to have been sold at fair market value immediately at the time of death. For real estate properties, a capital gain will have to be reported at 50%. The same goes for any non-registered investment, where the capital gain will be the difference in the market value when the investment was purchased, and the value at the time of death. All registered investments, such as RRSPs and RRIFs, are deemed sold at their full market value upon death. The full balance of the RRSP or RRIF will need to be reported as income on the final tax return.

How are capital gains on investments treated?

As I illustrated in the example above, if the deceased had non-registered investments at the time of death, they would be considered to have been sold at that time. Any income generated by the investment would need to be reported on the deceased tax return. In the case of capital gains, 50% would be considered taxable and added to the estate income.

What is probate?

Often, an estate must go through a legal process referred to as probate. The first requirement of probate is to determine that the will is valid and authentic. Probate also involves the overall administration of a person's will. In situations where a person died without a will, the overall estate. As I mentioned earlier, there is no tax on estate assets, however, provinces do charge probate fees before estate assets are transferred to the beneficiaries.

How do probate fees work?

Probate fees can be complicated, and they vary from province to province. Certain assets in an estate can bypass probate, reducing the final probate cost. An example would be assets with a designated beneficiary, such as a life insurance policy, or most registered investment products, such as RRSPs and TFSAs.

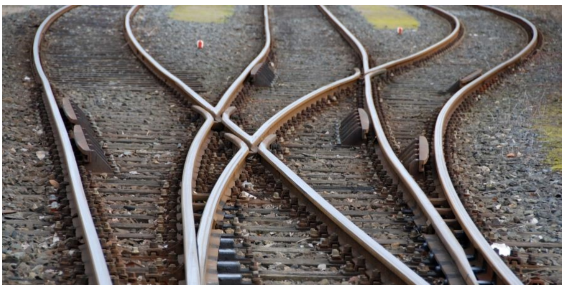
Here's a tip. If you haven't named a beneficiary on your RRSP or TFSA, make sure that you do, if you want to avoid those monies being subject to probate. In lieu of a beneficiary, the funds will be transferred into your estate, and be included in the probate for the calculation of fees. In most cases, joint assets are also excluded from probate, as the joint owner assumes full ownership of the asset. This is most often the case where there is a surviving spouse.

Final thoughts on Canadian inheritance tax

As you are now aware, a Canada inheritance tax does not exist. Instead, the deceased's estate representative must file a tax return for the estate before disbursing funds to the beneficiaries. As a beneficiary, this means that once you've received your inheritance, it's yours to keep.

DISINFLATION IS BACK ON TRACK

BY HUBERT MARLEAU, MARKET ECONOMIST, PALOS MANAGEMENT



In prepared remarks, the Fed chair, Jerome Powell, told Congress that a broad set of indicators suggest that the economy has cooled from its pandemic extremes and is no longer overheating. He added: “We are well aware that the economy now faces 2-sided risks and therefore can no longer focus solely on inflation,” and from the Fed’s perspective, labour tightness as an inflation driver is gone. In the last couple of months, the ratio of unemployed workers to total job openings has returned to the levels of 2019. In this regard, the marketplace is already ahead of the curve, making financial conditions for business and households much easier than they were 6 months ago, in spite of the robust performance of the U.S. dollar.

Given the recent string of soft data shown by the fall in Citibank's Macro Surprise Index, the Bank expects a rate cut in September to be followed by 7 more at each of the subsequent 7 meetings. It may not be as drastic as that, but returning the policy rate (5.38%) closer to a neutral one (4.15%) makes sense, for the current gap of 123 bps is way too high if the Fed wants to avoid a soft patch from turning into a recession. A potential trigger is the Sahm Rule: an uptick to 4.2% in July would get us into a much needed soft-slowdown scenario. Indeed, the St Louis Fed’s Real-GDP Nowcast model for Q2 slowed to an annualised growth of only 0.97%, rolling over the same as the money supply.

Thus there is an opening for the Fed to recalibrate its monetary stance because the disinflation path is back on track. The New York Fed’s survey of 1-year inflation expectations showed that the index had moderated in June to 3.0% from 3.2% in May. Headline consumer inflation slowed to 3.0% year-over-year in June, from 3.3% in May, while core inflation - a closely watched measure, which excludes volatile food and energy costs, had remained steady at 3.3% and risen only 0.2% m/m - much lower than what has been expected by economists polled by the Wall Street Journal.

This was the first fall in retail prices since the onset of the pandemic. Moreover, several other inflation indicators support the disinflation narrative. The Adobe Digital Price Index - a good real-time gauge of prices charged for thousands of items sold on the internet - was 4.2% lower in June than it was a year ago, while the Truflation measure, which is updated daily, has fallen to 1.8% y/y from 2.6% at the end of May. Meanwhile, the Roger’s Agriculture index has dropped 9.5% to 1290 in the last 3 months. How much further evidence is needed to cut rates? On an earnings call on Thursday morning, PepsiCo C.E.O. Ramon Laguarta said the company was considering lowering prices on products where consumers want value. Similar statements were made by Congra, Delta Airlines and Cheetos. The point is that consumers have had enough of price increases and now they’re pushing back.

These are the kind of numbers and comments that should provide the needed confidence that the wind in the Fed’s sails is pointing toward a looser monetary stance. Generally, when the expected inflation rate (3.0%) is lower than the unemployment rate (4.1%), it’s a sign that monetary policy doesn’t need to stay too tight. The Fed’s Mary Daly and Austan Goolsbee were profoundly encouraged by the CPI data and see that some policy adjustments will be warranted. The Bank of America is of the opinion that when you plug in the Producer Price Index internals into Core PCE - the Fed’s favourite measure of inflation - it looks pretty good because it produces a 0.17% m/m increase for June. Unsurprisingly, the swap market is pricing an 96% chance that a September rate cut is in the offing since it's predicting that inflation could run as low as 1.1% next year.

VALUE OF AN ADVISOR: B IS FOR BEHAVIORAL COACHING

by Maria Nastasi, Russell Investments

Because Investing is not just about money

This year has been tagged "the election year." Globally, more voters than ever will head to the polls. So far, consequential outcomes have occurred in the European Union, Mexico, and India. There are many more to come, including in the U.S. With so much uncertainty in the political landscape, investors may be nervous—and they may be reluctant to remain in the market.

This is why an advisor's role as a behavioral coach is so important. Humans are emotional creatures. We often like to think we make rational and logical decisions. But the truth is we are often led by our hearts and not our heads. Between our emotions and unconscious behaviors; we are susceptible to making decisions that could potentially negatively impact our investments and the long-term health of our wealth.

This is why, at Russell Investments, one thing has never changed: our commitment to realizing and valuing the importance of advisors' role in clients' lives. We are so steadfast in this belief that we release an annual Value of an Advisor study. The study quantifies the tremendous value you bring to the client relationship through four pillars: A for active rebalancing and asset allocation, B for behavioral coaching, C for customized wealth planning, and T for tax-smart investing.

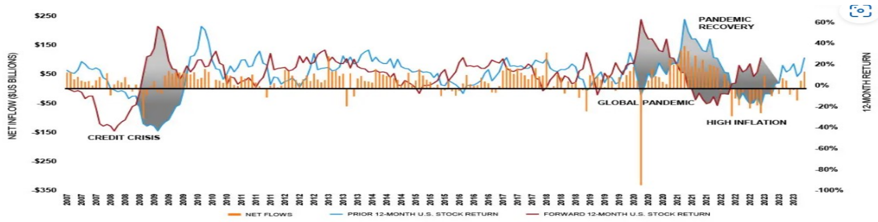
We have conducted this study for 11 years now, and for the last few years, the B component has provided the highest value of the formula. We've already discussed the value of active rebalancing in the first article of a series we will produce that deep-dives into each component. In this blog, we'll look at the value of the behavioral coaching you provide to keep your clients from making decisions that go against their best interests.

Without you, the advisor, your clients are more likely to pull out of volatile markets, follow the herd on a popular investment, or buy at the market peak and sell at the bottom, among other well-known behavioral mistakes.

Investors left to their own devices are often prone to chase performance. Similarly, investors are prone to vote with their feet when markets get difficult. To illustrate the point, look at the chart below, which shows the flow of money into and out of U.S. open-ended mutual funds and passive ETFs (Exchange Traded Funds) over the 20-year period ending December 2023.

Investors don't always do what they should

Recent demonstration of a "buy high and sell low" mentality
2007 - 2023 U.S. open ended mutual fund and ETF flows vs. market



Disclaimer

Data shown is historical and not an indicator of future results. Sources: Morningstar Direct. Flows include active and passive categories: Monthly open-end mutual fund and ETF flows. Data as of December 2023. U.S. Stocks represented by Russell 3000 Index. Index performance is not indicative of the performance of any specific investment. Indexes are not managed and may not be invested in directly.

As you can see, the flows into mutual funds and ETFs lagged the blue line both up and down. That means investors bought into the stock market after it had already begun to climb and sold after it started falling. In other words, they bought high and sold low.

Human behavior is a fascinating topic. For many years, experts have studied and identified over 200 behavioral biases. These biases can be influenced by factors such as past experiences, conscious or unconscious beliefs, and what is happening around us at any given moment.

That's just some of the "noise" we are exposed to. Our clients also receive information about the latest and greatest from friends or family members.

While this year may be one of political uncertainty, something could always make investors wary of the markets. If we stack rank the doom and gloom headlines, we can be forgiven for some of the decisions we or our clients may have made when it came to our investments:

War in the Ukraine – 2 years and counting

War in Gaza and Israel – 6 months and counting

Soaring inflation and the increase in the cost of living

Talk of recession

Markets can be unpredictable. However, their long-term trend has been up. Remember that the S&P 500 Index has finished the year in positive territory 74% of the time since its inception in 1926. Human behavior is manageable – if we understand it. Investors who are guided by advisors—and stick to their plans—are likely to benefit.

We believe that being a behavioral coach to your clients is one of your most important roles as an advisor. Helping clients understand and address their emotions may limit the emotional decisions that can damage an investor's long-term financial plans. By doing so, clients are given the best chance to reach their financial goals.

LPL Financial

Adam Turnquist—Chief Technical Strategist

BIG GAINS FOR SMALL CAPS

Additional content provided by John Lohse, CFA, Senior Analyst, Research.

The Russell 2000 Index, a key benchmark for small cap stocks, advanced an impressive 6% last week, outperforming the S&P 500 by the widest margin since November 2021. This surge brought the small cap index to its highest level since January 2022, signaling a potential breakout for a sector that has largely underperformed in recent years. So, what's been propelling this asset class to its highest levels in over two and a half years, and is it sustainable?

Inflation Cooperating

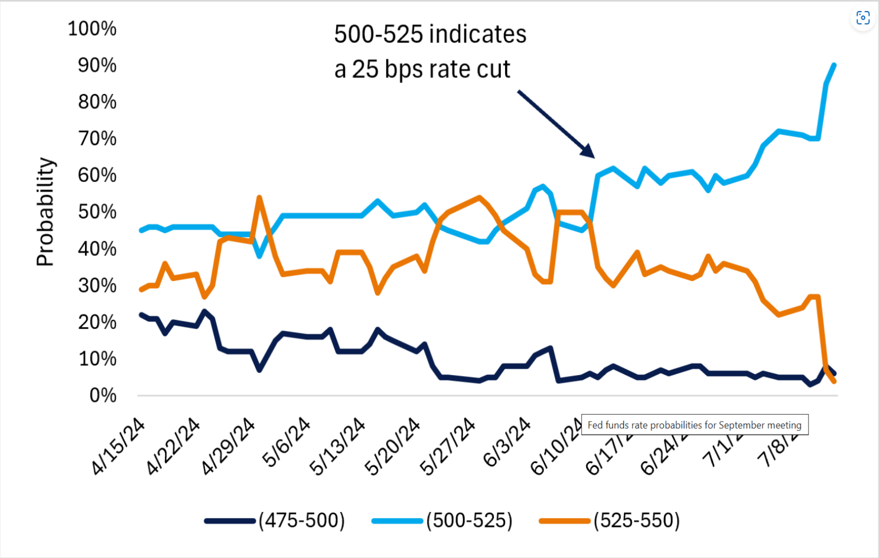
It's hard to start any conversation about small caps without first analyzing the inflation environment. The headline Consumer Price Index (CPI) reported last Thursday, declined 0.1% in June (the first monthly decline in over four years!) and rose 3.0% year over year. This print was largely cheered on by small cap investors. An hour after the report came out, upon the market's opening, the Russell 2000 immediately traded 1.5% higher than Wednesday's close and finished the day up over 3.5%. That marked the largest one-day gain from the index since November of last year.

Watch the Fed and Interest Rates

June's CPI report was welcome for small cap stock prices because smaller companies generally rely on borrowing to fund operations. As inflation cools, the expectation that the Federal Reserve (Fed) will cut rates increases, therefore, creating a lower cost of capital for debt-dependent companies. The Fed will meet four more times this year in July, September, November, and December. The probability for a rate cut in July remains low, however, markets are pricing in a greater than 90% chance for a 25 basis-point cut (0.25%) in September. For context, only a month ago, the market was pricing in just a 62% chance of a September rate cut. If the market is right, this would mark the first cut since the depths of COVID-19 in March 2020.

The chart below highlights the probability of the fed funds rate following the September 17–18 Fed meeting over time. Currently, the target rate sits between 5.25–5.50%. Shown below is the uptick in the probability for a rate of 5.00–5.25% after Thursday's CPI report, indicating a greater than 90% probability of a 25-basis-point cut. The spike in probability coincided with a 3.5% Russell 2000 rally last Thursday.

Target Rate Probabilities for September 18, 2024, Fed Meeting



Source: LPL Research, CME Group, 07/15/24

LPL Financial

Adding to more speculation of the start of Fed rate cuts, on Monday, Fed Chair Jerome Powell indicated an unwillingness to wait until inflation hits its long-run 2% rate, saying “The implication of that is that if you wait until inflation gets all the way down to 2%, you’ve probably waited too long.” Powell did curtail that comment a bit by stating that the Fed is searching for “greater confidence” inflation will return to the 2% level. Nonetheless, small caps continued their rally on the comments, with the Russell 2000 finishing up 1.8% on the day, beating the S&P 500 by over 1.5%.

Improving Technical Analysis Picture

The technical backdrop for small caps has improved following the recent rally. Below, we examine the price action on the S&P Small Cap 600 Index. After a rally late last year, the index consolidated and traded sideways for much of 2024, finding support at its August 2023 high of 1,254. The recent move higher last week pushed the index above its 50-day moving average, as highlighted in the top panel. Below, the bottom panel details the relative strength of the index versus the S&P 500 index, showing the near-term rebound is trying to thwart the year-long downtrend.

Early Signs of a Technical Shift

Source: LPL Research, Bloomberg 07/15/24
Disclosures: Past performance is no guarantee of future results. All indexes are unmanaged and can’t be invested in directly.

Economic Conditions May Bring Headwinds in the Second Half

Before we get too excited about small caps, we need to examine the economic backdrop. The jubilee of the recent small cap rally should be tempered as we expect to find signs of a weakening economy in the latter half of 2024. Strong consumer spending has staved off the hard-landing narrative, but we’ve seen a shift away from big-ticket purchases. Today’s retail sales report indicated a month-over-month decrease in auto sales, while sales at sporting goods and hobby stores declined for the third time in four months, and restaurant spending decelerated.

The labor market has also shown signs of cooling as initial jobless claims have been ticking higher since the start of this year. The unemployment rate remains historically low but is expected to pick up in the second half.

Despite attractive valuations, improving technicals, and potential rate cuts, a slowdown in economic growth and a softening labor market could make the bull case for small caps much more opaque.

Summary

There seem to be competing factors underpinning small cap performance. For now, more immediate data points like CPI and Fed projections are igniting small-market-cap names higher. However, at this point, it remains to be seen if a longer-term economic slowdown will balance out the recent step higher. In this case, we’d expect more difficulty for small cap growth in particular, as it has a higher sensitivity to economic health than small cap value. A portion of small cap stocks, mainly regional banks on the value side, could continue to benefit from elevated lending rates if the higher-for-longer policy takes hold. For these reasons, LPL Research maintains a neutral stance on small cap equities with a bias towards high quality. We don’t want to miss spikes in price appreciation as we’ve recently seen, but if economic weakness indeed persists, we want to be positioned in more profitable segments of the small caps and remain careful. The late-cycle characteristics of this economy and the increase in expected volatility require a watchful and targeted approach at this point.

PROTECTING YOUR LIFESTYLE BY KPW

Robert E. Sykes

ASSET ALLOCATION VIEWS: UNCHARTED TERRITORY

It's hard to believe we're sitting here towards the end of June, just about to turn the page on the first half of 2024. And as we reflect back on the first six months of the year, I think it's safe to say that there's really been no shortage of key market events and narratives that investors have had to focus on, including the pace of global disinflation and what it's meant to global central bankers. Secondly, the pace of earnings growth or the delivery of earnings growth above what analysts expected coming into 2024. And then notably, the performance of risk assets, most notably that of US equities.

Now, when we look at the global macro environment, we believe the global economy remains in decent shape as we stand here at the midpoint of the year. Leadership from an economic perspective remains with the US, and we know that the US consumer has been a big driver of that. And even though we've seen some signs of cooling, depending on the data point that you look at more recently, the US remains in decent shape at the moment. In addition, we've seen signs of stabilization, and in some cases, improvement from some of the non-US economies, many of which have experienced challenge over the past 12 to 24 months. I would include places like Europe or Japan and even places like China, where policymakers have been keen to intervene more recently to shore up some of the more challenged areas of the economy, like the property sector.

But for us, as we look into the second half of the year, our team will be very focused on the pace of disinflation globally and in particular in the US. Now, we've seen central banks be able to cut over the past several months in the developed world. That would include places like Switzerland and Sweden, seeing it in Canada, and recently with the ECB. But in the US, it's been a bit trickier. The Federal Reserve has acted a bit more cautious, rightfully so, as the pace of disinflation has proven to be one step forward, one step back for much of the first half of the year. And much of that can be attributable to some of these one-off inflationary factors like auto insurance or shelter costs, which have remained a bit more buoyant.

However, as we look into the latter portion of the year, our view is that these one-offs will come into line and ultimately provide cover for the Fed to cut interest rates towards the end of the year. And we believe that's very important because we see interest rate cuts in an environment where growth remains on decent footing as a potential catalyst to unlock relative value in the markets. What I mean by that is we've seen over the past six months, but really over the past 18 months, 2023 and year-to-date '24, leadership really exhibited by US large-cap stocks solely, and in particular, mega-cap growth stocks. When we think about rate cuts, there's areas within the market that could benefit, like US smaller cap stocks. They've been highly leveraged to the interest rate cycle. They trade at multi-decade relative valuation discounts and are poised to benefit from rate cuts.

In addition to that, areas outside of the US, some of which I mentioned, both in the developed and emerging world, also look attractive and could benefit from a rate cutting cycle. So our team's point of view will be to continue to monitor the trends from an economic standpoint, inflation standpoint, how that translates into the central banker view, and what that means for market leadership in terms of leadership being exhibited by areas outside of US large cap stocks. So we will monitor that and keep you posted. And in the meantime, please feel free to check out our asset allocation views on the website. Thank you so much for your time.

PROTECTING YOUR LIFESTYLE BY KPW

BMO Insurance | BMO Guaranteed Investment Funds

Annuity Settlement Option

With BMO Guaranteed Investment Funds (GIF), the Annuity Settlement Option gives you the option to distribute the value of the Death Benefit in several ways and can provide you with:

1. A choice between distributing funds to your beneficiaries either through:
   - A lump-sum or
   - Periodic installments or
   - A combination of the two above
2. Flexibility for beneficiaries who:
   - Are part of a blended family and have stepchildren
   - Have impulsive spending habits
   - Are dependents who may not be able to manage money well
   - Are financially dependent
3. Comfort knowing that their estate will be distributed according to their wishes

Case Study:

Harvey is a married medical professional who has $300,000 invested in a non-registered BMO GIF. He would like to leave this amount to his children, Bob and Betty.

Betty is a high income earner and financially stable. However, Bob has struggled to hold a steady job and doesn't have good spending habits.

Using the Annuity Settlement Option, Harvey has a simple and flexible way to discretely split the distribution of these funds.

Beneficiary	Amount
Betty	$50,000 lump sum
Bob	$50,000 lump sum plus $200,000 paid out over 10 years through a term certain annuity

Working with his advisor, Harvey completes an Annuity Settlement Option form (838E) for his BMO GIF. By doing so, he can rest assured that his wishes will be carried out discreetly—at no extra cost. Down the road, if he wants, Harvey can make changes to the Annuity Settlement Option by submitting any changes using the same form.

Please contact our office at 905-893-2540 for additional information.

OAS Allowance for the Survivor Benefit: Amounts and Dates Explained

Story by Joy Fadogba— MastermindQuotes

Losing a husband or wife is hard. It can also worsen money problems, especially if you're close to retirement age. This is where the OAS Allowance for the Survivor benefit comes into play.

The Allowance for the Survivor is designed to help seniors between 60 and 64 years old who have lost their partner. This money can be a big help when waiting to get other retirement benefits at 65.

In this article, I discuss how this benefit works, how much money you can get in 2024 and when you can expect it.

What is the Allowance for the Survivor?

The Allowance for the Survivor is a monthly benefit paid to eligible seniors aged 60 to 64 whose spouse or common-law partner has died.

This benefit is part of the Old Age Security (OAS) program and helps those who might struggle financially until they can get regular OAS payments at 65.

Who Qualifies?

To get the Allowance for the Survivor, you need to:

- Be between 60 and 64 years old
- Live in Canada
- Be a Canadian citizen or legal resident
- Have a low income (less than $29,112 as of the second quarter of 2024)
- Have lived in Canada for at least 10 years since you turned 18
- Have lost your spouse or common-law partner

How Much is Allowance for the Survivor?

The amount is updated every quarter and may increase in line with the Consumer Price Index (inflation). In 2024, the most you can get monthly is $1,614.89, but most recipients get less than this.

How much you get depends on your income. The government will consider your income from last year and use the income reported on your tax return.

When and How Do You Get Paid?

Payment occurs near the end of the month. You can have it deposited into your bank account, which is the fastest way. If you don't use direct deposit, you'll get a check in the mail.

All OAS benefits are paid on these dates in 2024:

January 29, 2024

February 27, 2024

March 26, 2024

April 26, 2024

May 29, 2024

June 26, 2024

July 29, 2024

August 28, 2024

September 25, 2024

October 29, 2024

November 27, 2024

December 20, 2024

How to Apply

You can apply online on the Service Canada website. You can also fill out a paper form and mail it. You'll need to provide information about yourself and your income.

It's a good idea to apply as soon as you can after your spouse dies.

Also read: The Canada Pension Plan Explained

What Happens When You Turn 65?

The Allowance for the Survivor stops when you turn 65. But don't worry – at 65, you can start getting regular OAS payments.

You might also be able to get the Guaranteed Income Supplement if your income is low. You'll need to apply for these benefits before you turn 65.

How It Affects Your Taxes

Allowance for the Survivor benefits is considered taxable income. This means when you file your taxes, you need to report this money as part of your income. The government will send you a tax slip (T4A(OAS)) that shows how much you got during the year.

You can choose to have tax taken off your payments each month. This is called tax withholding. It can help you avoid owing a large amount during tax time.

Getting the Allowance for the Survivor might affect other tax credits or benefits you can get. For example, it might change how much GST/HST credit you receive.

Combining with CPP Survivor's Pension

You might be able to get the CPP Survivor's Pension at the same time as the Allowance for the Survivor. These are two different benefits. The CPP Survivor's Pension is based on how much your spouse paid into CPP.

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