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"Inflation is the silent thief that robs us of our purchasing power. Understanding it is the first step to safeguarding our economic future."

THE WAY I SEE IT

By SERGIO SIMONE

The "Dog Days of Summer" have traditionally referred to the hottest and most oppressive period of the summer, typically from July 3rd to August 11th. This term originates back to the Greeks and Romans, who associated this time with the heliacal rising of Sirius, the Dog Star. While the ancients believed this star contributed to the extreme heat, today we simply recognize it as the peak of summer's sweltering temperatures.

As we navigate these dog days, the financial markets are experiencing a mix of optimism and caution. Some of the key trends I have been following include: Stock Market Performance; Inflation and Interest Rates; and Economic Growth from which I try to get a handle on what we can expect when everyone is back from vacation and the summer markets begin to pick up steam again.

Stock market performance during the summer months can be quite varied, but typically show a non-assuming pattern. June often experiences modest gains or losses. Historically, it is not a standout month for significant market movements and this year was no different. In June the S&P 500 saw modest gains, continuing its upward trend from earlier in the year.

July, on the other hand tends to be one of the better performing months, often showing positive returns. Contrary to historical trends, July 2024 was challenging, with the S&P 500 experiencing its worst July in over a decade due to recession fears and a disappointing jobs report.

Historically, August is a more volatile month with no strong directional bias. It can go either way, making it somewhat unpredictable and right on cue, after a disappointing and unexpected July, August rebounded sharply in the middle of the month, driven by encouraging economic data, including a three-year low in inflation and strong retail sales. This led to the S&P 500 notching its best weekly performance of the year. The S&P 500 has shown resilience, continuing its upward trend despite mixed economic signals.

Historically, inflation during the summer months can vary based on broader economic conditions. Some of the general trends include: Seasonal Factors as we typically experience increased spending on travel, leisure, and energy (due to air conditioning), which can put upward pressure on prices. However, these effects are usually modest and temporary.

When I look at historical data, inflation rates during the summer months have fluctuated. For example, in the past 10 years, summer inflation rates have ranged from relatively low (around 1 – 2%) to higher spikes (around 4 – 5%).

In 2024's summer months inflation has shown a notable cooling trend. In June the consumer price index (CPI) rose by 3% year-over-year, down from 3.3% in May. This decline was driven by lower gasoline prices and easing price pressures on household necessities. Inflation continued to cool in July with the CPI rising by 2.9% year-over-year, marking the smallest annual increase since March 2021.

The downward trend in inflation has provided some relief for consumers, especially in terms of staple goods like groceries and gasoline. The Federal Reserve's interest rate policies have played a significant role in this moderation, and there are expectations for potential rate cuts by the end of the year. I would go so far as to predict that we will see a cut at the next Fed meeting in September.

The Summer of 2024 is especially interesting to me as far as Economic Growth goes. This is a “make it or break it time” as I believe we are on the crux of either something wonderful occurring or a lot of the “same old, same old” of the last few years. Most of the outcome will be determined by the Fed’s actions, and most recently that action has taken on the form of “inaction”. Even while the U.S. economy has been showing signs of slowing for some time, with a revised Q1 GDP growth estimate of just 1.3%, the Fed has elected to stay in a holding pattern. High interest rates are impacting consumer spending and investment, leading to cautious optimism about future growth, yet Fed Chair Jerome Powell continues to emphasize the need for more data and greater confidence that inflation is moving sustainably toward the 2% target.

I believe he will finally see the light and at the next Federal Reserve meeting on interest rates scheduled for September 17-18 we will finally see an interest rate reduction in the U.S. If Powell does cut rates, history has shown us we can expect stock markets to react positively as lower interest rates can boost corporate profits by reducing borrowing costs. However, there is a possibility that the initial reaction can be mixed, especially if the rate cut is seen as a response to economic weakness.

Bond prices typically rise when interest rates fall, as existing bonds with higher rates become more attractive. Now may be a good time to increase bond exposure in your portfolios.

Lower interest rates can encourage consumer spending and borrowing, potentially boosting economic activity, but if Powell continues to hold rates steady, the markets are likely to react negatively, especially if investors were banking on a cut to support economic growth. This would likely lead to increased market volatility. Bond yields might remain stable, or increase slightly, reflecting continued higher borrowing costs.

Consumer confidence is a fickle piece of this puzzle. A decision to maintain current rates could signal that the Fed is confident in the economy’s resilience, which might bolster consumer confidence in the long run.

Although I believe the probability of a rate cut in September is close to 100% certainty, I always ask myself when making a directional assertion, “what if I’m wrong and how do I protect against being wrong?”

The key to protecting your portfolio in the event the market reality strays from our outlook is to maintain a diversified portfolio. We strive to ensure your investments are spread across different asset classes to mitigate risk. And to “Stay Informed”. Keeping up with economic news and Federal Reserve announcements is a key element in anticipating the likelihood of a rate change and the effects it can have on portfolios.

THE WAY I SEE IT

One certainty when I look ahead is that investors can expect continued market volatility tied to geopolitical and macroeconomic factors. Despite this, I expect S&P 500 companies to continue growing earnings, presenting potential long-term buying opportunities.

So, while we navigate through the Dog Days of Summer, it is essential for investors to stay vigilant and adaptable. The summer months can bring unique challenges and opportunities, influenced by seasonal trends and broader economic conditions. By understanding the current market landscape and preparing for potential interest rate changes, investors can make informed decisions to protect and grow their portfolios.

Remember, diversification and staying informed are key strategies to weather any market fluctuations. Whether you’re looking to capitalize on potential rate cuts or safeguard against rate hikes, having a well-thought-out plan can help you achieve your financial goals.

As for me, I plan on enjoying these dog days of summer by staying cool, staying informed and staying happy!

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HOLISTIC FINANCIAL PLANNING

COMPREHENSIVE APPROACH TO FINANCIAL WELL-BEING

Over the last few years our firm has been transitioning to a Holistic approach to Financial Planning. Unlike traditional financial planning, which often focuses on specific financial goals or products, holistic financial planning takes a broader view, considering all aspects of an individual's financial life. It takes a top-down approach that integrates various aspects of your financial, personal, and lifestyle goals.

The primary reason for our evolution to Holistic Financial Planning is that we felt that today's complex financial landscape required an all-encompassing, comprehensive approach that went beyond just financial goals. It takes into account your personal values, experiences, and overall life objectives. This alignment ensures that your financial plan supports your broader life goals.

By considering various aspects such as investments, insurance, and estate planning, a holistic approach helps in identifying and managing risks more effectively. Once these issues are adequately addressed, our clients have discovered that a well-rounded, holistic financial plan can significantly reduce stress by providing clarity and direction. Knowing that all aspects of your financial life are being managed can bring peace of mind.

Ensuring all parts of your financial life are optimized leads to better overall financial health. This includes everything from budgeting and saving to tax planning and debt management.

Life is unpredictable, and a holistic financial plan is designed to be flexible and adaptable. It can be adjusted as your life circumstances change, ensuring that you stay on track to meet and enjoy your goals. By addressing both short-term needs and long-term goals, holistic financial planning helps in creating a sustainable financial strategy that can lead to long-term success and stability.

The bottom line is that a holistic approach to financial planning offers a well-rounded, integrated strategy that aligns with your life goals, reduces, stress, and improves overall financial health. It's about creating a balanced and sustainable financial future.

Key Components of Holistic Financial Planning

Let's explore some of the key elements that a Holistic Financial Plan will address.

Investment Strategy: An investment strategy is a crucial part of holistic financial planning. It involves creating a plan for how you will allocate your funds across different assets to achieve your financial goals. Some of the key elements to consider are: Risk Tolerance; Time Horizon; Diversification; Asset Allocation; Investment Goals; Regular Review and Rebalancing; Tax Efficiency.

Retirement Planning: This is a crucial aspect of holistic financial planning. It involves creating a comprehensive strategy to ensure financial security and a comfortable lifestyle during your retirement years. Some key elements to consider include: Estimating Future Expenses; Assessing Income Sources, Creating a Tax-Efficient Withdrawal Strategy; Healthcare and Long-Term Care Planning; Inflation Protection; Estate Planning; Regular Reviews and Adjustments.

Insurance Planning: Another critical aspect of holistic financial planning is Insurance. It involves evaluating and implementing various insurance policies to protect you, your loved ones, and your assets from unforeseen events. Some key elements to consider include: Life Insurance, Health Insurance, Disability Insurance, Long-Term Care Insurance; Property and Casualty Insurance; Liability Insurance; Estate Planning Integration; and of course Regular Reviews and Adjustments.

Insurance needs can change over time due to life events such as marriage, the birth of a child, or changes in employment. Regularly reviewing and adjusting your insurance coverage ensures that you remain adequately protected as your circumstances evolve.

Estate Planning: This is a vital aspect of holistic financial planning that ensures the orderly distribution of your assets and the protection of your loved ones after your passing. Some key elements to consider include: Creation of a Will; Establishing Trusts; Designating Beneficiaries; Minimizing Estate Taxes; Advance Healthcare Directives; Power of Attorney; and the all encompassing Regular Reviews and Updates.

Estate planning is not a one-time event. It's important to regularly review and update your estate plan to account for changes in your financial situation, family dynamics, and legal requirements. This ensures that your plan remains current and effective.

Tax Planning: This involves organizing your financial affairs in a way that minimizes tax liabilities and maximizes after-tax returns. Some key elements that require consideration include: Tax-Efficient Investment Strategies; Utilizing Tax Deductions and Credits; Timing of Income and Expenses; Capital Gains Management; Estate and Gift Tax Planning; Retirement Planning Integration.

Tax laws and personal financial situations can change over time, so regular reviews and adjustments to your tax planning strategies ensures that you remain compliant with current tax laws and continue to optimize your tax situation.

Budgeting, Saving & Debt Management: Budgeting is the cornerstone of financial planning. It involves creating a detailed plan for how you will allocate your income to cover expenses, savings, and investments. Some key aspects include: Tracking Income and Expenses; Setting Financial Goals; Creating a Spending Plan; Creating an Emergency Fund; Short-Term Savings; Long-Term Savings; Automatic Savings; Assessing Debt; Prioritizing Debt Repayment; Consolidating Debt; Avoiding New Debt.

Holistic financial planning offers a comprehensive and integrated approach to managing your finances. By considering all aspects of your financial life, it helps you achieve your goals, reduce stress, and improve your overall financial well-being. Whether you're just starting your financial journey or looking to refine your existing plan, a holistic approach can provide the guidance and support you need.

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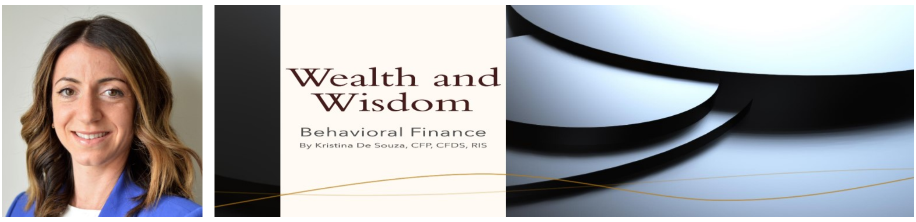

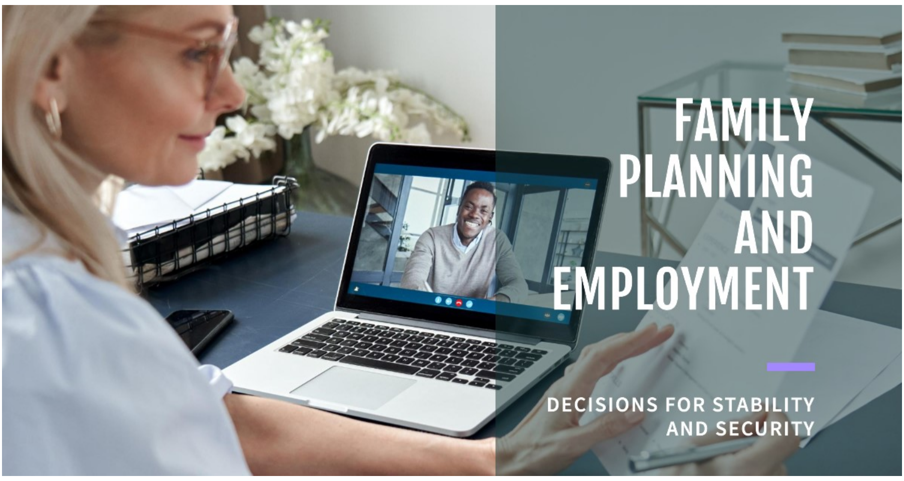

Managing family transitions attracts a great deal of my attention and effort. In our lifestyle financial planning endeavours, our focus is on helping our clients live the life they want to and maintain it no matter what happens.

More and more we are finding clients faced with growing family responsibilities; caring for loved ones, whether it’s children or parents. We continue to face the timeless predicament about deciding whether to work outside the home, as one partner may decide to reduce work hours or leave the workforce altogether. We often play an integral role in helping families establish the affordability of such decisions, and the implications on income and insurance needs.

When deciding whether a family can live on one income, the starting point is an evaluation of net worth and cashflow, deciding how much is “enough” to maintain their desired lifestyle. But as holistic planners, our value add is that we consider more than just the numbers, we go beyond the financial aspects of such major family decisions.

It doesn’t need to be an all or nothing decision either, as working part time can be a great way for some to check all the boxes. If and when the decision is made to go down to one family income, there needs to be a re-evaluation of insurance needs as well.

There’s a common misconception that only the income bearing partner needs insurance, however, when we consider the potential for the at home partner to get sick, additional expenses would surely ensue. The income earner may have to take time off work, and deal with additional costs such as childcare, home cleaning and meal preparation.

Although traditional disability insurance wouldn’t be possible for the at-home partner, critical illness insurance surely has a purpose. If the income earner gets critically ill, disabled or dies, the income will need to be replaced through the appropriate insurance.

For those who are fortunate to have employee benefits, it’s important to gain a thorough understanding of what they cover and identify any gaps. It’s key to understand the types of insurance (life, disability), the amount of insurance (coverage of base salary vs. bonuses), and what they cover (i.e. death in the workplace or anywhere). This will ensure you are able to maximize the benefits of existing coverage.

Usually, one can increase their group coverage at their own expense if they undergo medical underwriting, which can be less expensive than individual insurance. However, sometimes medical issues may stand in the way of approval, so you may need to go through individual channels, Regardless, getting the proper protection in place sooner rather than later is ideal. It’s important to consider that some employers allow part time employees to maintain their coverage, so this can play a role in decisions to stay on. This is especially true as the cost of disability, critical illness and life insurance, as well as health and dental insurance, all add up.

As I have often discussed in the past, mortgages are best covered with a term life policy as opposed to mortgage insurance through the bank, where the bank is the beneficiary. With individual term life insurance, where you choose beneficiary, you’re free to choose how to use the money.

Although bank mortgage insurance ends once the mortgage is paid off, families may opt to renew a term policy or convert it into permanent life insurance when finances are more suited to this. It's important to consider that for life insurance, we generally recommend that each spouse has their own policy, rather than a joint first-to-die policy which is typically used for estate planning. But when it comes to income replacement, should one spouse die, a surviving partner with children would need their own life insurance policy as they'll need coverage for when they pass as well.

The topics covered herein are relevant to most family lifestyle financial planning, however, they come to the forefront for those taking a step back from a two-income household. Our opinion stands that when it comes to family decisions, both partners should be present and have their say. Planning ahead, although not always possible, can make a big difference in ensuring the proper savings and protection are in place and cash flow management is under control. Realizing that there are things money can't buy can be a real eye opener when making such decisions, and we are here to help navigate this challenge for those who need it.

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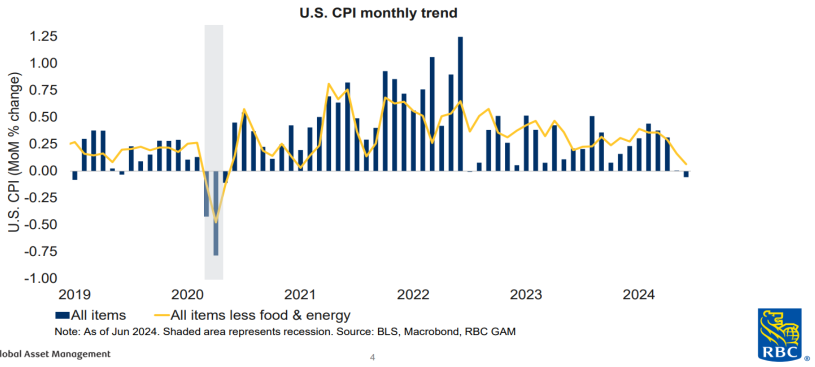
PROTECTING YOUR LIFESTYLE BY KPW

U.S. inflation trend has improved beautifully



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Inflation looking good across a range of metrics

Inflation measures	% change annualized 1-month	3-month	6-month	12-month
CPI	-0.7	1.1	2.8	3.0
Core CPI	0.8	2.1	3.3	3.3
CPI excluding gas	1.0	1.8	3.1	3.1
Median CPI	2.4	3.2	4.2	4.2
Trimmed-mean CPI	2.0	2.3	3.4	3.3
PCE deflator	0.9	1.5	3.0	2.5
Core PCE	2.2	2.3	3.4	2.6
Median PCE	3.1	3.6	3.9	3.5
Trimmed-mean PCE	1.7	2.3	3.2	2.8
PPI	2.7	2.8	3.2	2.7
CPI components				
Goods	-4.2	-1.9	-0.5	-0.4
Services ex shelter	0.7	1.3	4.7	4.8
Shelter	2.1	3.9	5.0	5.2
Food	3.0	1.6	1.8	2.2
Gasoline	-37.1	-17.6	-5.4	-2.5
Motor vehicles	-11.5	-7.2	-5.7	-4.2

Note: As of Jun 2024. Source: BEA, BLS, Federal Reserve Bank of Cleveland, Federal Reserve Bank of Dallas, Macrobond, RBC GAM

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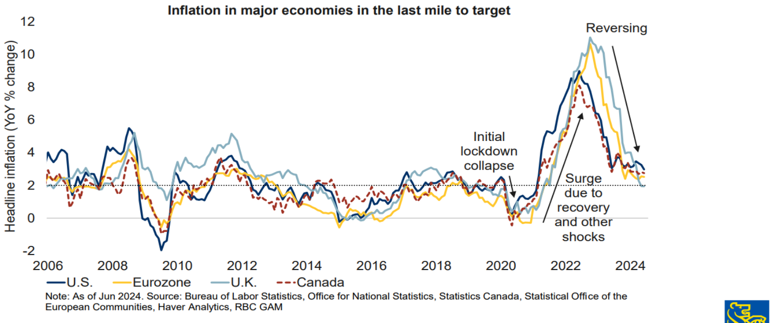
International inflation closing in on 2% target



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Macro Musings

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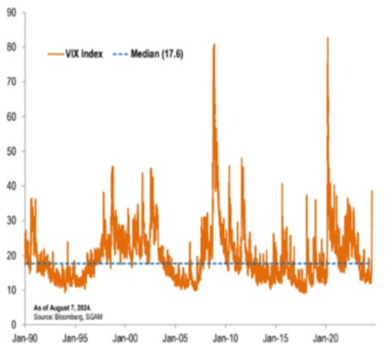
August 13, 2024

On the Volatility

Financial market volatility had started to creep higher over the past few weeks on the back of some disappointing global developments, ultimately surging higher in response to recession-related fears following the early- August jump in the U.S. unemployment rate (see Chart of the Week). Stocks were sold while high quality bonds staged an impressive rally.

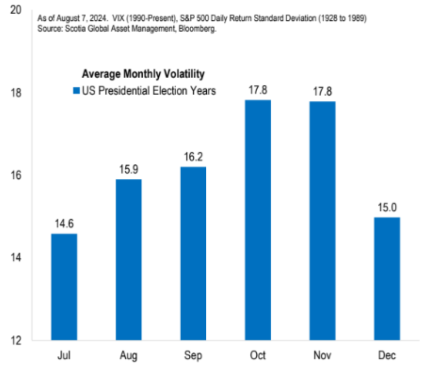
Equity volatility is nothing new, particularly during the summer months which are so often characterized by low levels of market liquidity. While the S&P 500 had declined by just over 8% from its recent peak before showing some signs of stability, a 10% or greater drawdown has been a once per year occurrence over the past century. Stocks might be best considered as an uncomfortably rewarding asset class.

Chart of the Week: A recent surge in equity market volatility



For those with multi-asset portfolios, the downturn in equities has been at least partially offset by the rally in bond prices. Bonds have been serving as a much better buffer for unexpected growth shocks given that inflation risks have dissipated. Portfolio diversification, which we believe includes exposure to stocks, bonds and alternative assets, is an effective antidote for economic and financial market uncertainty.

Rolling into Year's End



Between July 16 and the more recent low, the S&P 500 had declined in value by 8.5%. Notable equity market sell-offs in the July-August summer period, often months of lower market liquidity, are fairly common. Even in recent years, it is easy to find several examples such as those which occurred in 2007, 2010, 2011, 2013 and 2015.

It would not be too surprising to see somewhat higher than average volatility into the November U.S. federal election. On average, using all election years back to 1928, equity market volatility has risen into the election before immediately declining in the following months.

The following factoids can offer helpful context using the past 100 years of history: On average, a 5%+ sell-off is a three times a year occurrence; those greater than 10% usually surface once per year; a 15%+ downturn happens every couple of years; and, something 20% or greater lands on our doorstep every 3-4 years. Despite these periods of intermittent turmoil, the S&P 500 has generated annualized total returns of about 10.5% over the past century.

The largest drawdown that has occurred so far in 2024 is measured at just beyond 8%, well below what has been the typical size.

Said differently, equity investing has tended to be not only uncomfortable but rewarding.

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LIFESTYLE FINANCIAL PLANNING BY KPW

PRIVATE WEALTH: SOLUTIONS FOR HIGH-NET-WORTH INVESTORS

CREATING A LEGACY OF FINANCIAL AFFLUENCE

SAFEGUARD YOUR WEALTH

RISK MANAGEMENT FOR HIGH-NET-WORTH INDIVIDUALS

By Sergio Simone

High-net-worth individuals (HNWIs) face unique challenges when it comes to managing and protecting their wealth. Some of the key challenges include:

Complex Financial Portfolios: HNWIs often have diverse and complex financial portfolios that include various asset classes such as stocks, bonds, real estate, private equity, and alternative investments. Managing these portfolios requires sophisticated strategies and expertise.

Tax Optimization: Navigating the complexities of tax laws and regulations to minimize tax liabilities is a significant challenge. HNWIs need to employ advanced tax planning strategies to ensure compliance while optimizing their tax positions.

Estate Planning: Ensuring the smooth transfer of wealth to future generations while minimizing estate taxes and avoiding legal disputes can be intricate. Comprehensive estate planning is essential to address these concerns.

Privacy and Security: HNWIs are often targets for fraud, identity theft, and other security threats. Maintaining privacy and securing personal and financial information is a critical concern.

Philanthropy and Legacy Planning: Many HNWIs are interested in leaving a lasting legacy through philanthropic efforts. Structuring charitable giving in a tax-efficient manner and ensuring that philanthropic goals are met can be challenging.

Succession Planning: For those with family businesses, planning for the succession of leadership and ownership is crucial to ensure the continuity and success of the business across generations.

Global Considerations: HNWIs with international investments or residences must navigate different legal, tax, and regulatory environments. Managing cross-border wealth requires specialized knowledge and expertise.

Lifestyle Management: Balancing the demands of a high-net-worth lifestyle, including luxury asset management, travel, and personal services, with financial goals and responsibilities can be complex.

Economic and Market Volatility: HNWIs must stay informed about global economic trends and market conditions to make informed investment decisions and protect their wealth from potential downturns.

Addressing these challenges requires a comprehensive and personalized approach to wealth management, often involving a team of financial advisors, tax professionals, legal experts, and other specialists.

In this article, I will focus on **Risk Management**. Or, protecting wealth against unforeseen events such as market volatility, economic downturns, legal liabilities, and personal risks. Over the coming months I will continue this series and address the other unique challenges faced by HNWIs.

Insurance solutions are considered one of the best ways to manage risk for HNWIs for several reasons. Insurance provides comprehensive coverage against a wide range of risks, including life, health, property, liability and more, ensuring that HNWIs are protected from various potential losses and liabilities. Various types of insurance policies offer various solutions for HNWIs, but the commonality is that insurance helps HNWIs maintain their financial stability and continue their lifestyle even in the face of unexpected events.

HNWIs often have diverse and valuable asset portfolios, including multiple properties, luxury vehicles, art collections, yachts, and private jets. Insuring these assets requires specialized policies that provide adequate coverage for their high value and unique risks. Standard insurance policies may not meet the specific needs of HNWIs. They often require customized coverage tailored to their unique circumstances.

HNWIs are often targets for lawsuits and claims. Comprehensive liability insurance provides protection against legal liabilities and claims, including personal liability, professional liability, and directors and officers (D&O) liability. This helps mitigate the financial impact of potential legal disputes.

HNWIs with international assets or residences need insurance policies that provide global coverage. This ensures that their assets are protected regardless of their location and that they are compliant with different countries' insurance regulations.

Maintaining privacy and security is a significant concern for HNWIs. They need insurance solutions that protect their personal information and provide coverage for potential security breaches, including cyber insurance to safeguard against cyber threats and data breaches.

HNWIs often seek the best healthcare and wellness services. They require comprehensive health insurance that provides access to top-tier medical facilities and specialists worldwide. Additionally, they may need coverage for concierge medical services and wellness programs.

Life insurance plays a crucial role in estate planning by providing liquidity to cover estate taxes and other expenses. This ensures that heirs receive their intended inheritance without the burden of significant tax liabilities. Structuring life insurance policies to align with estate planning goals can be complex and requires expert advice.

An often-overlooked type of coverage is for Income Replacement. Health and disability insurance provide income replacement in case of illness or disability. This ensures that medical emergencies do not deplete personal wealth and that HNWIs can maintain their standard of living.

Aside from the obvious protection values, insurance provides something that some would argue is even more valuable than the hard assets themselves, "peace of mind!" Having insurance in place provides peace of mind, knowing that potential risks are covered. This allows HNWIs to focus on their personal and professional pursuits without constantly worrying about potential financial setbacks.

While insurance premiums represent a cost, they are often more cost-effective than bearing the full financial impact of a significant loss. Insurance spreads the risk across a larger pool, making it a financially prudent choice. By leveraging insurance solutions, HNWIs can effectively manage and mitigate risks, ensuring the protection and preservation of their wealth.

Effective risk management involves more than just purchasing insurance policies. HNWIs need comprehensive risk assessments and loss prevention strategies to identify potential risks and implement measures to mitigate them. This often requires working with specialized insurance brokers and risk management consultants.

While HNWIs have significant financial resources, managing the cost of insurance premiums is still important. They need to balance the cost of premiums with the level of coverage required to protect their assets adequately. This may involve exploring different insurance providers and policy options to find the most cost-effective solutions.

By addressing these unique challenges, HNWIs can ensure that their wealth and assets are adequately protected, providing peace of mind and financial security.

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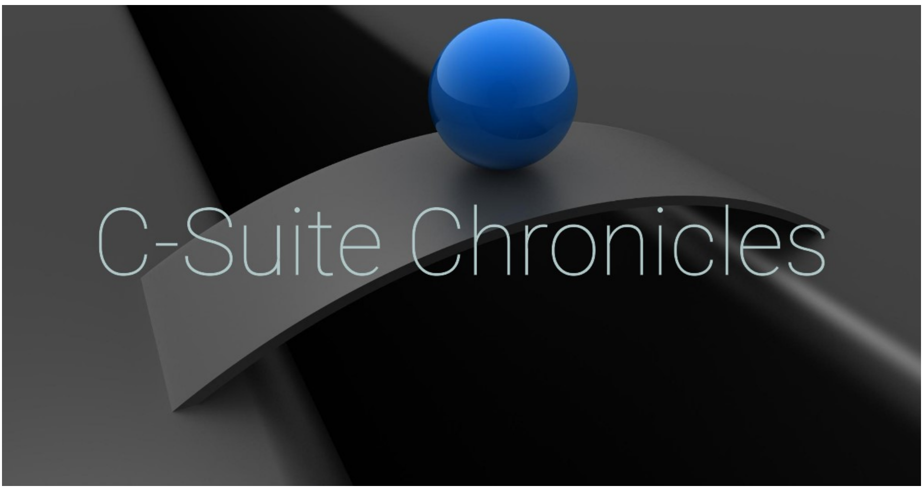

Harvard Business Review

6 Strategies for Leading Through Uncertainty

By Rebecca Zucker and Darin Rowell

If there was ever any doubt about the importance of a leader's ability to navigate change, uncertainty, and disruption, the emergence of the global pandemic in 2020 made this necessity abundantly clear. And while we all hope to avoid future pandemics, one thing is certain — we cannot avoid ever-increasing complexity.

The leaders we work with often report feeling stuck, ill-equipped, or overwhelmed as they face the growing challenges of their roles. Understandably, it's easy to feel this way when the complexity of our world has surpassed our "complexity of mind," as Robert Kegan and Lisa Lahey describe in their book, Immunity to Change. To put this in concrete terms, computing power has increased more than a trillion-fold since the mid 1950's, but our brains remain unchanged.

In order to effectively lead others in increasing complexity, leaders must first learn to lead themselves. Although each leader faces their own unique circumstances, we have observed six strategies that accelerate your ability to continually learn, evolve, and navigate progressively more complex challenges.

Embrace the Discomfort of Not Knowing

Throughout our careers, we are conditioned to come up with the answer — as in a single, definitive, correct answer. Given that our brains are hardwired to see uncertainty as a risk or threat, it's physiologically normal to feel stress when faced with unfamiliar situations. This is especially true for high achievers who have built their career on knowing or finding the "right" answer. Although avoiding these unpleasant feelings is a natural human tendency, it can become a significant barrier to learning, future growth, and ultimately performance.

Rather than avoid these feelings, we must learn to acknowledge and embrace the discomfort as an expected and normal part of the learning process. As described by Satya Nadella, CEO of Microsoft, leaders must shift from a "know it all" to "learn it all" mindset. This shift in mindset can, itself, help ease the discomfort by taking the pressure off of you to have all the answers.

Distinguish Between Complicated and Complex

Most of us use the terms complex and complicated interchangeably when, in fact, they represent critically different circumstances. For example, tax law is complicated, meaning it is highly technical in nature and difficult to understand, but you can break the problem down into discreet parts, consult with an expert (or several), and generally find a solution.

Conversely, complex challenges contain many interdependent elements, some of which may be unknown and may change over time in unpredictable ways. In addition, an action or change in one dimension can result in disproportionate and unforeseen outcomes. As an example, foreign policy and climate change are complex challenges.

While there may be no shortage of opinions on these topics, there are no clear solutions. As a result, solutions to complex challenges typically emerge through trial and error and require the willingness, humility, and ability to act, learn, and adapt.

Let Go of Perfectionism

In a complex environment, the context is continually shifting; thus, aiming for perfection is futile. Instead, aim for progress, expect mistakes and recognize that you have the ability to continually course correct as needed. For high-achievers, prone to perfectionism, egos and desired identities (e.g., of being successful or being “the expert”) can get in the way. To let go of perfectionism, identify, and acknowledge your specific core fears that are triggered — such as “I’ll fail,” “I’ll look bad,” or “I’ll make the wrong decision.” Underlying these fears is an often implicit and unexamined assumption that “if any of these fears come to fruition, I wouldn’t be able to recover from it.”

We’ve worked with several clients over the years to help them actively debunk these assumptions by having them talk with others they respect about the role of mistakes or failure in their careers. They hear a lot about learning, new opportunities, and professional growth that emerged as a result, but never the career-ending catastrophes that they imagine. Loosening the grip of these assumptions over time can allow you to let go of perfectionism and accept that mistakes and failure are to be expected along the way.

Resist Oversimplifications and Quick Conclusions

It’s tempting to oversimplify complex challenges, so that they seem less daunting. For example, breaking a challenge into its respective components can help you to feel like you have a greater command of the challenge at hand, but it can also narrow your view and obscure critical interdependencies, leading to a false sense of security. Likewise, drawing analogies from challenges that you’ve faced in the past, can be useful but it can also lead you to miss the unique nuances of the present challenge.

Many high achievers have a bias for action and become quickly frustrated when facing challenges that don’t present an evident solution and clear course of action. Instead of caving to the desire for quick resolution, leaders must learn to balance their need for action with a disciplined approach to understanding both the core problem and their own biases. For example, hiring a DEI leader at an organization, by itself, is insufficient if more systemic issues like outdated recruiting, promotion, development, and compensation practices go unaddressed.

Don’t Go It Alone

Many of the leaders we work with report feeling isolated as they face the continuous change and uncertainty in the challenges they face. Part of their sense of isolation comes from an implicit belief that they need to solve all of the issues themselves. As the complexity and volume of our workload increases, our natural tendency is to double down on our focus and individual efforts. When facing relatively short-term challenges with known solutions, this can be an effective strategy. However, when facing challenges where the full scope of issues and interdependencies, let alone solutions, are unclear, it can be a disaster. Instead, this is when it’s most important to cultivate the practice of intentionally reaching out to your network and beyond for insight and perspective.

There is an inherent limit for each of us regarding what we can know and our ability to have an objective perspective on any given situation. Yet, we can exponentially expand our knowledge and perspective by cultivating and connecting with a network of peers and colleagues — each with their own set of experiences and perspectives. As stated by one CEO client, “When I’m trying to make sense of a complex issue, the first thing I do is reach-out to people whose opinion I value and whose experience is in some ways different from mine. I want to know “How are they are looking at the situation? What’s their point of view? Who else should I talk to?” He went on to explain, “It’s not so much that I expect them to have an answer, as I want to plug into their thinking and their sources.”

Zoom Out

Leaders often get stuck in the challenges they face because they are too immersed in them. “Zooming out,” or moving from “the dance floor to the balcony,” as described by Ron Heifetz, Marty Linksy, and Alexander Grashow in The Practice of Adaptive Leadership provides you with a broader perspective and a systemic view of the issues and can shine a light on unexamined assumptions that would otherwise not be visible. From this “balcony” or elevated vantage point, interdependencies and larger patterns become observable, potentially revealing unforeseen obstacles and new solutions. This more holistic perspective allows for greater adaptability and course correction, when needed. Making a regular practice of conducting this dance floor-balcony shift, you can build your capacity to see the bigger picture and become more agile.

It seems that any given week provides ample reminders that, as leaders, we cannot control the degree of change, uncertainty, and complexity we face. However, adopting the strategies above can improve our ability to continually learn, grow, and more effectively navigate the increasing complexity of our world.

BEING RICH vs BEING WEALTHY: WHAT'S THE DIFFERENCE?

Author: Andrew Rosen, CFP. Source: Kiplingers

As a financial adviser, one of the topics that I often talk about is being rich vs. being wealthy. While those terms may seem like they're the same concept, there are nuances between them, and you can be rich without being wealthy, and vice versa.

What I've also found, is that the difference between being rich and being wealthy comes down to where you have the most zeros.

For most people, when they think of the word rich, they're likely thinking of assets — money, real estate, etc. And while there is nothing wrong with growing your assets (I've even made a career out of helping people do just that), at the end of the day, no one cares about how much you're worth and how much money you make.

Harvard has conducted a long-running study, since 1938, that followed 724 teenagers from their youth to their retirement. The happiest among those who were retired had similar traits when it came to their mindset, not their bank account.

This study suggested that there was an association between connections, such as your social circle, and happiness when you reach retirement age — and you don't find that in the zeros of your bank account. The thing that those in the study missed the most about their working years wasn't the work or making money either — it was the connections with those around them.

In retirement, discussion turns to pleasures rather than riches

When I visited my mother at her retirement community in Florida, not once did anyone talk about their career, their net worth or what they did for a living. While they all had to be some level of "rich" to be living in this particular retirement community, this wasn't a topic of discussion.

They spent their time talking about their hobbies, their grandkids and what they enjoyed doing with their lives.

That's the difference between being rich vs being wealthy — being rich means adding more zeros to your bank account. Being wealthy is about living your life with zero regrets, zero jealousy and focusing on what brings you joy and happiness.

In my experience, the happiest people I know are the wealthiest, but it has nothing to do with how much is in their bank accounts.

One of my favorite phrases is "money is a catalyst," because once you hit a certain income level where you are living comfortably, money is just money. If you're a happy person living with an income of $100,000 per year, an income of $500,000 isn't going to change your happiness level drastically. The opposite is true here, too — if you are miserable earning $100,000 per year, $500,000 isn't going to suddenly make you a happy person.

Obviously, this is only true when you're living at a level where you're earning enough that your needs are being met.

Money alone won’t make you happy

Some of the wealthiest people I know, with the largest bank balances, are also the most miserable. Money alone won’t make you happy, and it’s likely that if you’re a happy person earning a modest amount, you’d still be a happy person if you’re rich. The same goes for someone who’s miserable — they’d be miserable if they were middle-income or rich.

When it comes down to it, happiness isn’t reliant upon how many zeros are in your bank account. It takes effort to reframe your thoughts and find what truly makes you happy and to refocus and prioritize your decision-making around that.

Prioritizing what makes you happy may lead you into retirement being truly wealthy, where you can focus on the social connections that the Harvard study found so important to happiness.

PROTECTING YOUR LIFESTYLE BY KPW

FIDELITY: ECONOMIC OUTLOOK: THIRD QUARTER 2024

By Dirk Hofschire, CFA Director of Asset Allocation Research Team

Key takeaways

- **Markets:** Stocks rallied in Q2 led by large cap growth, specifically in the technology and communications sectors. The quarter was a mixed bag for other categories of US and non-US stocks.
- **Economy:** Economies across the globe expanded, including the US. US inflation in housing and services has persisted while some transitory pressures have receded and stabilized, for instance in supply chains. The job market remained tight and appears to be normalizing from high levels.
- **Investments:** Growth and large cap US stocks added to gains in Q2 while value, small caps, and mid caps posted negative returns. Emerging markets stocks led outside the US.
- **Valuations:** US stock prices became somewhat more expensive through the rally in Q2. Most fixed-income categories ended the quarter with yields near long-term historical averages.

Market summary: Low volatility and stable economics fueled a narrow rally for stocks

A rally for equities continued in the second quarter of 2024, once again led by large cap growth stocks. The global backdrop for the economy and earnings growth remained largely constructive, underpinning a period of relatively low market volatility.

The global business cycle exhibited reasonably healthy stabilization trends across geographies. Disinflation trends and the move toward monetary easing continued around the world, despite persistent core inflation in the US.

Q3 2024 Quarterly Market Update with Dirk Hofschire

Mixed trends in Q2: US growth stocks, as represented by the Russell 3000® Growth Index, advanced 7.8% for the quarter, largely driven by the information technology and communication sectors. After a steep downturn in 2022, the share prices of the largest seven US companies by market capitalization have nearly tripled since the start of 2023. Other categories of US and non-US equities finished mixed. Emerging-market stocks managed a healthy gain, whereas US value stocks and US small cap stocks each posted a quarterly loss.

Fixed income assets posted generally flat returns amid a modest uptick in interest rates.

Continued stability overall: Global markets continue to enjoy favorable momentum and easier financial conditions, even though the pace and magnitude of global monetary easing remains uncertain.

The base case for a prolonged cycle implies a near-term preference for more economically sensitive assets, but upside surprises may be more difficult amid the stubborn inflation outlook and elevated valuations for riskier assets.

Economy/macro: A prolonged global business cycle expansion

Many major economies, including the US, demonstrated persistent expansion amid improved global financial conditions and firmer manufacturing activity, even as the global environment became more varied.

The US expansion demonstrates evidence of both mid- and late-cycle dynamics and muted near-term recession risks. Several large developing economies—India, Mexico, and Brazil—showed a rise in mid-cycle dynamics. Japan and Europe remained solidly late-cycle, while Canada showed increasing recession risks. China's policymakers remained in easing mode. China's cyclical trends are mixed, and it remains uncertain whether policy easing will translate into a full-blown economic reacceleration.

Global manufacturing momentum appeared to broaden across a wider swath of countries during Q2. Manufacturing activity improved, moving into expansionary territory across a majority of the world's largest economies for the first time since 2022.

Manufacturing bullwhips—leading indicators of industrial activity measured by new orders minus inventories—remained in positive territory for more than 60% of the world's biggest economies.

What about inflation? Global goods disinflation continued to moderate. Meanwhile, inflation pressures that tend to be more persistent, such as housing and other services, haven't abated in recent months and drove most of the recent inflation. Transitory pressures, such as supply-chain disruptions, had receded, but have now stabilized as the major disinflation in the goods sector subsided.

Services inflation, likely boosted by wage pressures, remained stubborn, while rental disinflation remained slow, underscoring the continued persistence of core inflationary pressures.

We believe returning to the stable, low core-inflation backdrop of the past 20 years will be challenging.

Fewer rate cuts are expected: During the June FOMC meeting, the US Federal Reserve bumped up its inflation forecast and reduced its outlook for 2024 to one cut from three. The market followed suit, reducing its rate-cut expectations for the second straight quarter. Historically, asset prices rallied during the period between the last hike and the first cut, with a more uncertain path for stocks after the Fed cuts began. So far this time, stocks and bonds have posted positive returns since the last Fed hike, with stock performance at the upper end of its historical range.

What about jobs? Job creation, worker sentiment, and wage increases moderated in Q2, indicating a slowing in labor demand.

However, employment markets remained historically tight, and some key indicators are still near peak pre-pandemic levels. On the supply side, the rally in participation rates has stalled, and our demographic estimates imply there may be fewer opportunities for labor force growth going forward. To this point, we characterize labor market activity as normalizing from high levels but not decisively turning disinflationary.

Investment growth continues: The growth in business investment and labor-market productivity remained in an upswing. Capital expenditures (CapEx) likely received a boost from artificial intelligence (AI) projects and domestic manufacturing reshoring, with new factory construction boosting investment in structures. If sustained, growth in CapEx and productivity could provide a disinflationary path for increased wages and profits that may raise the odds of returning to mid cycle. However, new investments often take multiple years to sustainably raise productivity rates.

Looking ahead to November: The November elections will determine who decides how to address the $4.5 trillion of 2017 personal income tax cuts that expire at the end of 2025. The fiscal deficit is expected to remain large over the next several years (6%–7% of GDP), in part due to rising interest rate payments on federal debt. Interest payments are set to grab an even larger share of deficits over the next several years even if rates don't rise, making fiscal choices even more politically difficult. Bond markets may watch the fiscal situation closely in 2025.

Asset markets: Q2 2024 shows mixed results by category

Global equity returns were positive during Q2. However, the rally was relatively narrow.

Stock prices: Growth and large caps added to their gains in the second quarter, whereas value (-2.3%), small caps (-3.3%) and mid caps (-3.3%) each posted a negative return for Q2. Among US equity factors, momentum (+5.8%) and quality (+4.5%) rose the most during Q2, whereas size (-2.6%) lost slight ground.

Outside the US, emerging market stocks led the way for the quarter, especially emerging-market Asia. Conversely, Japan, Canada and the EAFE region each recorded a negative return.

Valuations became somewhat more expensive amid the Q2 stock rally, especially for the US The trailing one-year price-to-earnings (PE) ratio for US stocks remained well above its long-term average. Emerging markets trailing valuations are slightly above their long-term average, while DM finished below the long-term average.

Fixed income: Riskier fixed-income categories, such as leveraged loans (+1.9%) and high yield (+1.1%) gained, whereas US Treasuries, mortgage-based securities, and municipal bonds each returned flattish results.

Treasury rates rose modestly during Q2, with most fixed-income categories ending with yields near their long-term historical averages. Meanwhile, credit spreads ticked up in most sectors, generally ending the quarter around the lower end of their historical range. Overall, fixed income yields suggest valuations that are roughly in line with long-term averages and better than the past decade of low yields.

Earnings: Investors continued their optimism for 2024 earnings. After contracting modestly in 2023, investors expect a double-digit rebound for corporate earnings growth in 2024 and beyond.

Buybacks remain a tool to boost aggregate EPS but have been highly concentrated. The largest 20 companies by market capitalization accounted for half of all buybacks this year. After dropping from record-high levels, profit margins have stabilized. Investors expect margins to remain elevated, but the ability of companies to maintain pricing power will be key to the outlook.

Currencies: The dollar rally extended through Q2, continuing a multiyear trend of relative outperformance underpinned by strong US economic growth.

However, there are some signs that the degree of US economic outperformance is no longer supporting the value of the dollar at the same rate. With the dollar expensive according to long-term valuation metrics, major non-US currencies could provide portfolio diversification benefits to US investors.

GENERATION BILLIONAIRE: GEN Zers SAY STOCKS AND SOCIAL MEDIA ARE KEY TO BECOMING RICH

By Robert Frank. CNBC WEALTH EDITOR

Members of Generation Z say the secret to getting rich in America is by trading stocks or becoming an influencer, while boomers still put their faith in entrepreneurship, according to a new survey.

When asked about the “most lucrative way to become rich in America today,” the largest number of Gen Zers said “stock market trading/investing,” at 35%, according to new findings from The Harris Poll. The cohort ranked “becoming an influencer/content creator” a close second, at 34%.

Baby boomers, by contrast, overwhelmingly ranked entrepreneurship first, at 53%, followed by “becoming a professional athlete.”

The results show that when it comes to perceptions of how to become rich in America, every generation has a different path, shaped in large part by their economic experiences, culture and technology. Millennials rank “becoming the CEO of a company” first (39%), followed by stock market trading (38%) and entrepreneurship (36%). Gen Xers also ranked stock trading first (41%), followed by entrepreneurship (40%).

The Harris Poll surveyed more than 2,100 U.S. adults between May 31 and June 2. The survey defined Generation Z as those between the ages of 18 and 27, millennials as ages 28 to 43, Generation X as 44 to 59, and boomers as aged 60 and older.

Artificial intelligence ranked fairly high by all generations, at around 30%, and “becoming an A-list celebrity" was consistently in the middle for all generations, at about 24%. There was a wide divergence around crypto, with 25% of Gen Z survey respondents saying crypto was a lucrative way to become rich, compared to just 6% of boomers.

There are also generational differences over the dream of being rich, with millennials the most eager to become billionaires. When asked if they want to become a billionaire one day, 73% of millennials agreed, compared to 67% of Gen Zers, 56% of Gen Xers and 47% of boomers. Demographically, Latin Americans and Black Americans showed the greatest aspiration to become billionaires, at 71% and 70% respectively, according to the survey results.

When it comes to their overall views on wealth, Americans remain conflicted. A majority say they “look up to billionaires” and that billionaires are “good for society” and “good for the economy.” At the same time, 70% believe inequality is “a serious national issue” and two thirds of survey respondents said they believe that billionaires don’t pay their fair share of taxes.

“This shows the complex love-hate relationship Americans have with wealth and success,” said Libby Rodney, chief strategy officer and futurist at The Harris Poll. “They’re trying to understand inequality and the need for a more fair playing field while a majority of people still want to win that golden ticket to become a billionaire.”

Social media is playing a large role in wealth attitudes, especially with younger generations. While Gen Xers and boomers experienced the aspirational wealth displays of the 1980s, millennials and Gen Zers grew up with status flaunting on Instagram.

“In the 1980s and 1990s it was keeping up with the Joneses,” Rodney said. “Instagram then created this perfect world that people needed to keep up with, the influencers with the perfect house and vacations. And that changed the way we think about our needs. I think TikTok set out to break that and is more about how people really live, so I think that is a reckoning.”

Americans also think the surge in American fortunes will continue. A majority (62%) believe they will see trillionaires in their lifetime.

Know Your Alts:

CONSIDER THIS WHEN INVESTING IN PRIVATE ALTERNATIVES

High-interest and inflationary times have led many investors to reconsider the traditional stocks-and-bonds approach to their portfolios. Some have increased their cash holdings; others have eyed treasury bills and other assets. No matter their response, it is increasingly clear that investors are searching for profitable strategies. With alternative assets, they may find just that.

“Alternatives” can describe assets that don’t fall into traditional investment categories and include private companies that are not traded on an exchange or stock market. In recent years, institutional and individual investors have significantly increased their allocation to such assets. More than four-fifths of Canadian advisors said they plan to increase their exposure to alternative assets in the near future. Furthermore, almost 40% said they are considering larger positions in private real estate.

Though these increasingly popular and accessible investment vehicles can differ widely, investors employ them for many of the same reasons — diversification chief among them. Most offer exposure to assets with low correlation to stocks and bonds and tend to be actively managed. Additionally, private alternatives can offer the potential for higher returns than traditional asset classes like stocks, bonds, or cash. It is easy to see why private alternatives are top of mind.

Before exploring alternatives, it is important to consider the role such an investment can play in your client’s portfolio. Is your client’s objective to unlock stable cash flow, achieve long-term growth, or simply to diversify their holdings? How will an investment fluctuate as the economic environment shifts — can it safeguard your client’s capital when other asset classes are down? And are you familiar with the risks associated with alternative investments?

As with all investments, due diligence is necessary before suggesting a private alternative to a client. Depending on the category, clients may also have to meet certain investor requirements. Advisors with a strong understanding of alternative investments and their risks can employ their key characteristics to help mitigate the effects of inflation and fluctuating interest rates, producing exceptional value for their clients. With that in mind, we discuss four popular private alternative investments and some of their key considerations.

PRIVATE EQUITY REAL ESTATE

Private equity real estate companies raise capital to invest in real estate properties and/or developments. Most actively manage their investments and create value for investors over the long term through a combination of rental income and capital appreciation. As such, investors will turn to private equity real estate funds for long-term wealth creation and cash flow that can potentially beat the public markets.

Diversification:

Real estate is a broad industry. Private real estate companies can focus on a single category of real estate — multi-residential (e.g. apartments), industrial, commercial, office, and so forth — or a combination thereof. Note that a private real estate company built around a single category can still offer diversification through varied geographies, building types, and other factors. Others can diversify their activities through development, the management of properties, and more.

Hedge against inflation:

If a private company holds rental properties, such as multi-residential properties, consistent annual rent increases can offer a hedge against inflation. Commercial, industrial, and office property types typically hold longer lease periods that must be considered.

Stability:

Canadian private real estate has historically been characterized by low volatility, even through periods of heightened economic uncertainty.

Accessibility:

Traditionally, private real estate investment meant large sums of capital up front — $250,000 and up — and long lock-up periods. As the popularity of private real estate increases, more companies are asking for smaller up-front investments.

Economic indicators to watch:

Immigration:

Immigration to Canada is set to reach all-time highs. A rapidly growing population has induced excess demand for residential real estate.

Interest rates:

Increased lending costs can put pressure on a private real estate company's ability to acquire or build properties, thereby slowing growth. The knock-on effects of high interest, such as slowed consumer spending or job losses, can negatively impact commercial and office sectors. Successful real estate companies can continue to grow value through activities such as renovating existing properties, collecting rent, acquiring discounted properties, and diversifying their holdings.

Inflation:

The costs associated with building maintenance and operation, construction labour, and asset management can increase during inflationary periods. Companies can mitigate increases to ongoing costs through operational efficiencies, such as in-house property management and other cost-saving measures.

Government policy:

Canadian governments at all levels have made efforts to hasten the development and construction of residential properties. Purpose-built rentals in particular have received a boost in recent months.

Mortgage Investment Corporations

Mortgage investment corporations (MIC) are alternative lenders who offer investors exposure to a portfolio of mortgage loans secured to real estate. MICs pool investors' capital to finance loans that generate a combination of interest income and borrowing fees. Investors will generally turn to MICs when seeking predictable and stable cash flow.

Loan risk:

MICs offer mortgages with flexible financing terms that may be considered riskier than what major institutions might offer, often to subprime borrowers who do not qualify for bank loans. To mitigate risk, MICs typically focus on shorter-term residential mortgages with loan periods of six to 36 months. These are perceived as safer due to their shorter time frame.

Taxes:

Due to their capital structure, MICs distribute all or almost all income to investors in the form of dividends. As such, they avoid paying income tax. However, these capital gains do not receive the preferential tax treatment of other dividends in the hands of the investor. Instead, they are generally taxed as interest income.

Diversification:

A mix of mortgages spread across regions and term lengths mitigates default and prepayment risk, which can decrease anticipated returns.

Cash flow:

MICs feature a fixed price per share and an exceptionally stable cash flow. For this reason, MICs are often seen as an alternative to fixed-income investments, such as bonds.

Economic indicators to watch

Interest rates:

The cost of borrowing follows the movement of interest rates. Although MICs stand to make stronger returns during periods of high interest, the opposite also holds true. Sudden interest-rate increases can increase the risk of default.

Home prices:

Volatility in the residential housing market, strongly correlated to interest rates, can cause unexpected changes to the value of a property used to secure a mortgage. This can impact a MIC's profitability.

Mortgage delinquencies:

An uptick in mortgage delinquencies can indicate heightened risk for a MIC.

Private Lending (or Private Credit)

In private credit or lending, an investor makes a private loan to a business or individual seeking capital. The investor receives interest income on the loan less management fees, often at a much higher interest rate than most banks or credit unions would charge. This premium reflects the inherent riskiness of private loans. Investors seeking the stability and predictability of fixed-income assets, but with significantly higher potential returns, may turn to private loans.

Predictability:

Borrowers can be required to repay the private loan on a set payment schedule, offering investors a predictable cash flow.

Default risk:

Borrowers turning to the private credit or lending market often have difficulty accessing a loan through a more conventional means. Distressed borrowers or borrowers with low creditworthiness pose a higher risk of default.

Loan terms:

Each borrower has unique circumstances. When writing a loan, it is possible to define repayment terms that are favourable to both the lender and the borrower. This can reduce obstacles to repayment and minimize default risk.

Illiquidity:

Giving a loan requires the lender to part with their capital. Depending on the terms of the loan, the lender may wait years for the return of their capital. Until then, they are unable to redeploy it.

Economic indicators to watch:

Interest rates:

An increase in interest rates can positively impact the returns on a private loan. Private loans will typically feature floating interest rates, providing significant upside potential should rates go up and interest losses when they go down. However, unexpected interest-rate increases can increase the risk of default should rates exceed borrowers' ability to repay.

Private Equity

Private equity extends beyond real estate. More generally, Private equity firms acquire business assets (private or public companies), manage or restructure them, then sell them. Investors are rewarded through the payment of dividends or distributions from the resulting capital gains. Given the broad category that private equity occupies, a specialty fund exists for just about every sector and business maturity. Investors may turn to public equity to achieve outsize returns not typically possible in the public markets.

Long holding periods:

It can take a significant amount of time and capital to create value from a company that private equity has acquired. For this reason, investors can expect lock-up periods of approximately 10 years or more, which allows the private equity firm ample opportunity to grow the investment.

Acquisition risk:

Buying the right company can increase the fund's value. On the other hand, a poorly selected business — one with significant debt or low likelihood of being turned around — can saddle a private equity firm with losses.

Extracting value:

Private equity's extraction-based business model may not sit well with some investors. Cost-cutting measures, layoffs, and debt restructuring are some of the potentially controversial tactics some firms may employ to create value.

Watch these economic indicators:

Interest rates:

Private equity firms use significant debt and very little equity to finance transactions. High interest rates make debt financing more expensive, impacting both a private equity firm's ability to make acquisitions and decreasing its ability to sell assets quickly and at a profit.

Labour metrics:

When reviewing a private equity fund, it is important to consider labour costs, productivity, and other metrics that can help determine the long-term profitability of underlying businesses.

Inflation:

Likewise, inflation can significantly impact the operating costs, and therefore profitability, of underlying businesses. Inflation also erodes private equity's purchasing power and overall returns. Rising inflation may prompt a firm to exit a position sooner than intended.

Mergers and acquisitions:

Mergers and acquisitions activity can hint at a private equity firm's ability to buy or sell in the current environment.

Private alternatives offer the risk and reward today's investors are seeking

The above are only some examples of private alternatives that can add significant value to a client's portfolio. Real estate can offer exceptional stability and diversification, while private equity is known for its considerable growth potential. Meanwhile, private lending and mortgage investment corporations can unlock bond-like cash flow under the right conditions. Each type of investment carries its own risks — and the potential for double-digit returns. An informed and open conversation can help determine the alternative assets best positioned to help your client achieve their objectives.

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BARE TRUSTS EXEMPTED FROM 2024 FILING REQUIREMENT

By: Rudy Mezzetta

Bare trusts won't have a filing obligation for 2024 if draft legislation released Monday passes.

"[T]he government is clarifying bare trust reporting rules to significantly reduce the number of Canadians with bare trusts who would have to file, and ease the related administrative burden when reporting requirements begin for the 2025 tax year," said Shanna Taller, a spokesperson for the Department of Finance, in an email.

Under the draft legislation, the provision defining a trust or estate in the Income Tax Act is replaced with one that excludes "an arrangement under which the trust can reasonably be considered to act as an agent for all the beneficiaries" — also known as a bare trust.

Instead, the government defines bare trusts under a provision for "deemed" trusts that would take effect for trusts with year-ends in 2025 and after.

Earlier this year, the Canada Revenue Agency (CRA) provided a blanket filing exemption to bare trusts for the 2023 tax year a few days before the trust return filing deadline of April 2, 2024. The last-minute reversal led to widespread frustration among tax practitioners and their clients, prompting a review by the Taxpayers' Ombudsperson.

With the changes proposed in the draft legislation, bare trust filing "is a 2025 problem [now]," said Ryan Minor, director of taxation with CPA Canada in Toronto. The move gives Finance and the CRA more time to provide guidance on filing requirements for bare trusts, he added.

The deemed trust provision essentially indicates that an "express trust" includes an arrangement in which a person legally owns a property they're holding for the benefit of another person, and the legal owner is considered to act as an agent for the person who benefits from that property.

The provision's wording "describes bare trust arrangements" and makes clear that "absent a permitted exception, these bare trusts would have to file a [trust] return" under the expanded trust reporting rules, said Emily Mantle, founder of CPA Compass in Sudbury, Ont.

The government also proposed broader trust reporting relief.

Under the draft legislation, a trust — including a bare trust — will be exempted from a filing requirement when: all trustees and beneficiaries are related to each other; the fair market value (FMV) of the property doesn't exceed $250,000; and the trust's assets consist only of cash, GICs, mutual funds, personal-use property and securities traded on a designated exchange (as well as certain other assets).

The draft legislation retains the existing filing exemption for trusts with a FMV of $50,000 or less, but no longer restricts the assets these trusts can hold to be eligible for the exemption. In addition, the trustees and beneficiaries need not be related to be eligible for the $50,000 exemption.

Both the $250,000 exemption and the $50,000 exemption would take effect for trusts with year-ends of Dec. 31, 2024, and later.

If passed, the new $250,000 exemption will apply to many common bare trust situations, such as when an adult child is named joint owner of a parent's bank account to help the parent manage their finances, said Ameer Abdulla, a partner with EY Canada in Waterloo, Ont.

The threshold is high enough to "generally encompass enough average Canadian bank accounts," Abdulla said.

"It's welcome that they're trying to narrow the range of circumstances which these enhanced trust reporting rules could otherwise apply," said Henry Korenblum, president of Korenblum Wealth Inc. in Toronto.

The proposed legislation also provides a filing exemption to an arrangement where individuals are on legal title of a real property that would be the principal residence of one or more legal owners, and all legal owners are related. The provision would be effective for trusts with year-ends of Dec. 31, 2025, and later.

“This will likely be welcome news for those who own a primary home and have adult child or parent on legal title” and could otherwise have a bare trust filing requirement, Mantle said.

However, the draft legislation makes clear the government is committed to including bare trusts within its expanded trust reporting rules.

“[Taxpayers] still have the fundamental problem of, ‘Do I have a bare trust? And must I file?’,” Abdulla said.

Adam Friedlan of Friedlan Law in Richmond Hill, Ont., said in an August 14 LinkedIn post that the amendments are “helpful because they narrow the application of the rules,” but taxpayers with common arrangements will still wonder if they have a filing requirement.

“Even a seasoned tax advisor has to spend hours poring over these [trust reporting] rules to try and understand how they work,” Friedlan said. “It is not practical to have this level of legislative complexity for matters that will affect millions of people.”

The expanded trust reporting rules were originally meant to be effective for the 2021 tax year, but the effective date was delayed twice, pending the passage of enabling legislation late in 2022. The new legislation is effective for trusts with year-ends on Dec. 31, 2023, and after.

However, as the 2023 filing deadline for trusts drew nearer, taxpayers began wondering if they had a bare trust in place and sought advice on how to comply with their new filing obligations.

In December 2023, the CRA said it would not assess penalties on late-filed 2023 bare trust returns in response to the “unintended impact” the rules were having on Canadians. In mid-March of this year, the CRA said it would not assess gross-negligence penalties for failing to file 2023 bare trust returns, except in egregious situations.

On March 28, the CRA provided taxpayers with a blanket exemption from bare trust filing requirements for 2023, except in cases where the agency made a direct request to file.

The draft legislation is out for consultation until Sept. 11.

Trust reporting and bare trusts

Under common law, a bare trust exists when a trustee’s only duty is to transfer property to a beneficiary on demand. A bare trust could be used for income tax avoidance or evasion, but in most cases bare trusts are used for convenience, confidentiality, probate planning and other legitimate purposes.

Under previous legislation, generally only trusts with taxes payable for the year or those that disposed of capital property needed to file an annual trust income tax return (T3). Under the expanded reporting requirements, express trusts (as opposed to those created by law) as well as bare trusts must file a T3: Trust Income Tax and Information Return, and a Schedule 15: Beneficial Ownership Information of a Trust, with the CRA on an annual basis.

The rules require trusts to identify all beneficiaries, trustees, settlors and/or protectors of the trust, including their addresses, dates of birth and taxpayer identification numbers, such as social insurance numbers.

Certain trusts are excluded from the expanded rules. These include graduated rate estates; qualified disability trusts; mutual fund trusts and registered plans; trusts in existence for less than three months; and trusts with less than $50,000 in asset value.

In addition to the existing penalty for failing to file a T3 return on time — $25 a day, with a minimum penalty of $100 to a maximum of $2,500 — the new reporting rules introduce an additional penalty for deliberately not filing or for gross negligence: $2,500 or 5% of the property’s value, whichever is greater.

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Canada's weak job market supports further rate cuts.

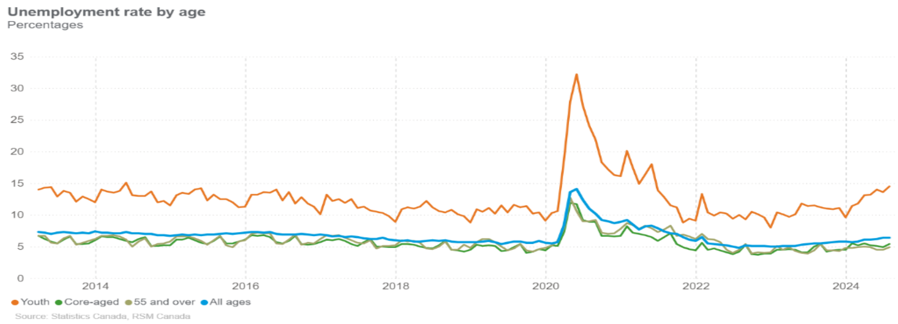
BY: TU NGUYEN

Canada's July jobs report spelled out the need for more rate cuts as the economy shed 2,800 jobs, according to data released Friday by Statistics Canada.

The unemployment rate stayed steady at 6.4% as labour force participation fell in a challenging market. Some youth and women had stopped looking for work in the lackluster job market; labour force participation fell 2.5 percentage points among young men, 1.3 percentage points among young women, and 1 percentage point among core-aged women. Among youth out of the labour force, 12% wanted work but did not try looking, a 2.6 percentage point increase from a year ago.

Continued rate cuts will be essential for hiring to pick up. If inflation data shows no surprises when it comes out, the Bank of Canada needs to cut the policy rate by 25 basis points in September.

Furthermore, we expect a string of 25-basis-point cuts until the Bank of Canada gets to a neutral rate, which we define as a range between 3% and 3.5%.



A closer look at employment

The job market is in a frozen state: workers with jobs are keeping them, while new entrants struggle to find jobs. The trend this year has been volatile labour demand and steadily increasing labour supply, and as a result the unemployment rate is expected to climb further in 2024. That would cause wage growth—which remains elevated at 5.2%—to ease.

Employers who might have over-hired a couple years ago are holding tight and waiting for further rate cuts, and this lack of hiring hurts youth and new immigrants—as well as those currently unemployed—the most. The employment rate of returning students fell to 51.3%, the lowest since 1997. This highlights the difficult summer job market for students as companies are exceptionally reluctant to hire.

Full-time employment in July grew by 62,000 while part-time employment fell 64,000. But over the past year, part-time employment has grown at a faster pace than full-time employment by 224,000, reflecting the weakening of the labour market overall. More workers are under-employed and working fewer hours now compared to a year ago.

The public sector continues to be the main job driver as it added 41,000 jobs while the private sector lost 43,000 jobs in July. Over the past year, the public sector has played a big role in keeping Canada out of a recession, adding 205,000 jobs across health care and social assistance (87,000), public administration (57,000) and education (33,000).

Employment fell in wholesale and retail trade (44,000) and finance, insurance, and real estate (15,000).

The takeaway. In an economy where virtually no hiring is happening and young workers and new immigrants cannot find jobs, the one tool to enable recovery is rate cuts. Even with a series of rate cuts expected, the unemployment rate will rise in the short term before improving.

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