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IMAGINE YOUR FUTURE

"The smart way to keep people passive and obedient is to strictly limit the spectrum of acceptable opinion, but allow very lively debate within that spectrum".—Noam Chomsky

THE WAY I SEE IT

By SERGIO SIMONE

ELECTION AFTERMATH: HOW TRUMP'S WIN SHAPES MARKET TRENDS

The 2024 U.S. Presidential election was one for the ages after Donald Trump and the Republican party not only won the Presidency, but the Senate, House and popular vote as well. This was a pronounced statement by the voting public demanding change and it seems that change is what they will get.

Markets have surged into uncharted territory following Donald Trump's victory, with a renewed wave of investor optimism shaping the financial landscape. Stock indices are climbing to record highs, cryptocurrencies are experiencing a rally fueled by speculation on favorable regulation, and sector-specific industries are reassessing strategies amid potential policy shifts. However, beneath the exuberance, questions linger about the long-term implications of fiscal expansion, potential trade disruptions, and inflationary pressures. In this dynamic post-election environment, understanding the risks and opportunities will be crucial for investors navigating the changing tides of the U.S. economy.

THE WAY I SEE IT

Politics aside, the best part of this election was that the victorious side won in such a convincing manner. As an Investor this was the best outcome, regardless of which side won. It would have been so much worse for our portfolios if the contest was so close it resulted in ongoing challenges, denials, law-suits etc.

Prior to the election, I did expect a Trump win and was convinced it would be bullish for the markets which seems to be exactly what has transpired. I am happy to say that our portfolios were well positioned with overweighting in equities which favored the U.S. The markets were as happy as I was that there were no contested results aside from a little noise coming out of the Senate race in Pennsylvania. By November 9th, the U.S. Federal Reserve's interest rate cut, following the election results saw the S&P 500 briefly topping the psychologically significant 6,000 point mark for the first time in history.

Let's take a dive into why there was so much jubilance after the election. I don't think I would be going out to far on the limb if I said a lot of the joy was related to 'tax cuts'. I don't believe too many people can argue with the fact that policies under a Trump White House and Republican controlled congress will favor business. This is likely to flow into a better than normal Santa Claus rally at year-end. This should bode well for U.S. Equities along with small-caps and financials.

Going forward, I do have some concern about a few sectors like Healthcare, China and some environmental or green segments. I also believe that the USD could struggle as Trump fulfills a campaign promise to make U.S. manufactured goods more competitive. In a nutshell, I expect that spending will continue, tax cuts will come and an overall confidence in the U.S. markets will help boost the markets further.

Something I am a little concerned about and I don't yet see priced into the markets is the geopolitical risks that may come with increased tariffs on goods entering the U.S. Trump has not been shy about his claims that increasing tariffs would put pressure on companies to manufacture more in the U.S. While the details of these policies will not be known until post-inauguration, many pundits are weighing in heavily on the possible negative impact these tariffs will have on inflation. This is definitely something that I will keep an eye on to determine what impact they could have on the markets during the Trump tenure.

One of the advantages our forecasting or outlooks have today is that we can go back to Trump's first term as president and see the impact his policies had then. Unless he makes drastic changes to his policies, we should expect much of the same kind of results today as 8 years ago. For example, I recall 8 years ago how business creation in Trump's first year as president went through the roof. If we experience the same eight years later, investors will have reason to be optimistic about the economy. And while some believe tariffs will weigh on the economy, others believe that they will reinforce the U.S. economy while becoming punitive to other economies.

For now I don't see any serious impact of tariffs on the Canadian economy. Instead I see support from the U.S. economy and believe me, I expect it will be very positive at a time that we will need it. Although rates in Canada are still on the restrictive side, I expect that during Q1 or Q2 2025 rates will turn stimulative which will ease pressure on borrowers. This will be critical as over one million households are scheduled to renew their mortgages in 2025. If rates don't fall significantly, the economy can face a serious crisis.

With Trump pulling the economic strings, we can expect to see corporate tax cuts and fiscal stimulus shifting the economy into high gear with a possible turbo boost. This will definitely benefit equities while possibly holding back Fixed Income.

Going forward I expect to see a continued resurgence in the small cap sector, especially in a pro-growth administration that is very U.S. business friendly.

Our recommendations will continue to overweight U.S. equities while reducing exposure to global markets and maintaining our current exposure to the Canadian markets. Canada is the U.S.'s largest trading partner so all else being equal, stronger U.S. growth should translate into the same for Canadian growth. As for tariffs, one of the reasons I don't believe there will be a significant impact to Canada is that we are so far down the priority list for the U.S. I believe Trump will be more focused on China, Mexico and Europe given the fact that we currently have a relatively more balanced trade with our partners south of the border.

Now that I have covered the main investment categories I want to address the standout winner of the "red wave" – Bitcoin, which recently soared past $90k. This was driven by expectations of favorable regulatory policies and increased adoption.

As we navigate the post-Trump election landscape, the markets will undoubtedly experience fluctuations and adjustments. However, with a keen eye on policy changes and global economic trends, there are always opportunities that exist amidst the uncertainty. By staying informed and adaptable, we can not only weather the storm but also thrive in this new era of market dynamics.

As always, the future is unknown and all we can do is offer our best guess probabilities, but right now, as I sit writing this, I see good things ahead for our portfolios.

Happy Investing.

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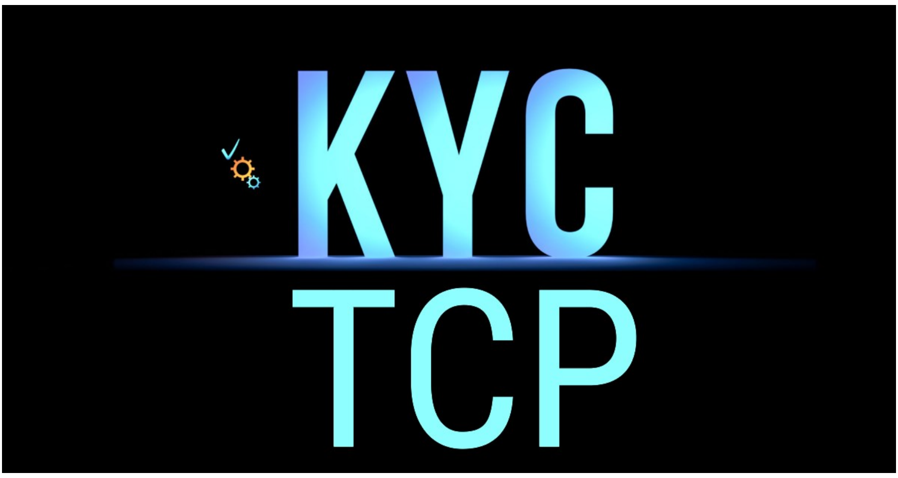
LIFESTYLE FINANCIAL PLANNING BY KPW



In our world of mutual fund advice and investing there are two forms that are receiving more attention these days even though they have been around for a while. One is the Know Your Client (KYC) form and the other is the Trusted Contact Person (TCP) Consent Form.

Although the KYC has been around since 1991, it did not gain any prominence until December 2001 in response to the September 11 terrorist attacks. Meanwhile the TCP has only been in effect since February 5, 2018.

In the world of finance, the Know Your Client (KYC) form is more than just a regulatory requirement—it's a cornerstone of building trust and ensuring a secure financial relationship. Completing an accurate KYC form not only helps financial advisors comply with legal obligations but also provides a comprehensive understanding of clients' financial needs, goals, and risk tolerance. This essential document plays a crucial role in preventing fraud, money laundering, and other financial crimes, while also enabling personalized financial advice and services. By emphasizing the importance of accuracy and thoroughness in completing KYC forms, we can foster a safer and more transparent financial environment for both clients and institutions.

By gathering comprehensive and precise information about clients, financial advisors can assess and mitigate potential risks associated with money laundering, fraud, and other financial crimes. KYC forms enable advisors to verify the identity of clients, understand their financial behavior, and detect any suspicious activities early on. This proactive approach not only protects the advisor from regulatory penalties and reputational damage but also safeguards clients' financial interests. By prioritizing accuracy and thoroughness in KYC processes, financial institutions can create a secure and transparent environment that fosters trust and confidence among clients.

Here is an example of the benefits of completing a KYC. Consider Sarah, who has approached our firm to invest in a high-yield investment opportunity. As part of the onboarding process we are required to complete a Know Your Client form. Sarah is very forthcoming and provides detailed information about her identity, financial background, and investment goals.

Once the KYC form and onboarding account applications are completed, it is a simple process to verify Sarah's identity using the information and documentation she provided. This step ensures that Sarah is who she claims to be and assists in preventing identity theft.

As a licensed financial advisor I am obligated to review Sarah's financial history, including her income, assets and previous investment experience. This helps me asses her financial stability and ability to handle the investment risk. Based on the information that Sarah provided, I evaluate her risk tolerance and investment preferences. Upon my assessment, I determine that the high-yield investment opportunity Sarah requested may be too risky for her current financial situation.

I am obliged to advise Sarah to consider a more suitable investment option that aligns with her risk tolerance and financial goals. Instead of the investment she came in looking for I have determined that a diversified portfolio with a mix of lower-risk investments would be more suitable for Sarah.

The bottom line is that by completing the KYC process, I was able to identify potential risks and provide Sarah with personalized advice that better suited her financial situation. This not only protected Sarah from making a potentially harmful investment but also safeguarded me from potential regulatory issues and reputational damage.

In the ever-evolving world of finance, safeguarding one's investments and ensuring financial well-being is paramount. One essential tool that investors can utilize to enhance their financial security is The Trusted Contact Person (TCP) Consent Form. This form allows investors to designate a trusted individual who can be contacted by their financial advisor in specific situations. Completing the TCP Consent Form offers numerous benefits and adds value to an investor's financial strategy.

One of the primary benefits of completing a TCP Consent Form is the added layer of protection it provides against fraud and financial exploitation. By designating a trusted contact person, investors empower their financial advisor to reach out to someone they trust if there are concerns about suspicious activities, potential fraud, or signs of financial abuse. This proactive measure can help prevent unauthorized transactions and protect the investor's assets from malicious actors.

A TCP Consent Form facilitates better communication between the investor, their advisor, and the trusted contact person. In situations where the investor may be unreachable or incapacitated, the advisor can contact the designated individual to discuss important matters, such as account activity, changes in contact information, or concerns about the investor's well-being. This ensures that critical information is conveyed promptly and that the investor's interests are safeguarded.

Knowing that a trusted contact person is in place can provide peace of mind for both investors and their families. It reassures them that there is a reliable point of contact who can step in if needed, ensuring that the investor's financial affairs are managed responsibly. This added layer of security can alleviate stress and anxiety, allowing investors to focus on their financial goals with confidence.

In cases where an investor may be experiencing cognitive decline or other health issues that impact their ability to manage their finances, a TCP Consent Form enables timely interventions. The trusted contact person can be alerted to any unusual account activity or concerns, allowing them to take appropriate action to protect the investor's assets and financial well-being. This can prevent potential financial losses and ensure that the investor receives the necessary support.

By completing a Trusted Contact Person (TCP) Consent Form, investors can enhance their financial security, improve communication, and ensure that their interests are protected. This simple yet powerful tool adds significant value to an investor's financial strategy, providing peace of mind and fostering a secure and transparent financial environment.

Let's look at a specific case where the TCP has significant value.

John, a retired individual, has been managing his investments through a financial advisor. Recently, John's financial advisor noticed some unusual activity in his account, including large withdrawals and transactions that were out of character for John. Concerned about potential financial exploitation, the advisor decided to contact John's designated TCP, his daughter, Emily.

Emily was able to confirm that John had not authorized the recent transactions and that he was unaware of them. This helped the advisor identify that John's account might have been compromised.

With Emily's input, the financial advisor was able to take immediate action to freeze the account and prevent further unauthorized transactions. This timely intervention protected John's assets from potential fraud.

Emily informed the advisor that John had recently been diagnosed with mild cognitive impairment, which might have made him more vulnerable to financial exploitation. This information allowed the advisor to take additional precautions to safeguard John's financial interests.

Emily and the financial advisor worked together to implement additional security measures, such as setting up alerts for large transactions and regularly reviewing account activity. They also discussed the possibility of appointing a financial power of attorney to assist John with managing his finances.

By having a TCP in place, John's financial advisor was able to quickly address the unusual activity, protect John's assets, and ensure his financial well-being. Emily's involvement provided valuable insights and support, allowing for a collaborative approach to safeguarding John's financial interests.

This example illustrates how a TCP can play a crucial role in protecting investors from financial exploitation and ensuring their financial security. If you have any more questions or need further details, feel free to ask!

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In today's fast-paced world, it's easy to get caught up in the hustle and bustle, often neglecting the crucial task of financial planning. However, taking the time to create a comprehensive financial life plan is an investment in your future that pays dividends in peace of mind and financial security. A well-thought-out financial plan not only helps you navigate life's uncertainties but also empowers you to achieve your long-term goals, whether it's buying a home, funding your children's education, or enjoying a comfortable retirement. By prioritizing financial planning, you can take control of your financial destiny and build a solid foundation for a prosperous future.

For those that are vague on what Financial life planning is, here is a brief description. It is a holistic approach to managing your finances that goes beyond just budgeting and saving. It involves creating a comprehensive plan that aligns your financial decisions with your life goals and values. This process includes setting short-term and long-term financial goals, developing strategies to achieve them, and regularly reviewing and adjusting the plan as your circumstances change.

Financial life planning is meant to provide **CLARITY AND DIRECTION** in your life. It should result in a clear roadmap for your financial future, eliminating many uncertainties. It helps you understand where you are now, where you want to be and how you are going to get there.

When you set specific, crystallized financial goals, you can create actionable steps to achieve those goals. Whether it’s buying a home, funding education, or planning for a secure, financially worry-free retirement, a financial life plan can help you stay focused and on track.

The end result of a sound financial plan should be **Peace of Mind**. Knowing that you have a plan in place to handle life’s uncertainties can reduce stress and anxiety. It provides a sense of control over your financial situation.

It is no secret that money is a leading cause of divorce. It is estimated that financial issues contribute to about 20-40% of all divorces. Money is a sensitive topic in any relationship, and when couples struggle to find common ground on financial matters, it can lead to increased stress and conflict. Typically, around 41% of divorced GenXers, along with 29% of divorced Boomers state that the reason their marriage ended was due to financial disagreements.

A financial life plan can significantly reduce the risk of divorce over financial conflicts by helping with things like Improved Communication, Shared Goals, Reduced Stress, Better Decision Making and Conflict Resolution.

Financial planning encourages open and honest discussions about money, which can help couples understand each other’s financial goals, priorities and concerns. Money problems often put a strain on other areas of the relationship as well. For example, one spouse may feel that they are working much more than the other spouse and are unable to enjoy their life outside of work which can lead to feelings of resentment and frustration.

Consider a couple, Alex and Jamie who have different spending habits and financial goals. Alex, a saver, prioritizes building an emergency fund and saving for retirement, while Jamie enjoys spending on experiences and living in the moment. These differences often lead to arguments and misunderstandings about money.

By engaging in financial planning together, Alex and Jamie can improve their communication in several ways. Financial Life planning sessions encourage Alex and Jamie to openly discuss their financial goals, priorities, and concerns. This helps them understand each other's perspectives and find common ground. This can help them set joint financial goals that align with both of their values. For example, they might agree to allocate a portion of their income to savings while also setting aside money for travel and experiences.

By creating a budget together, Alex and Jamie can track their spending and ensure they are both comfortable with how their money is being used. This reduces the likelihood of surprise expenses and financial stress. A well thought out financial life plan ensures that Alex and Jamie are prepared for the future as well as the present, It will help them build a solid foundation for long-term financial security.

By working together on their financial plan, Alex and Jamie can strengthen their communication, build trust, and create a more harmonious relationship.

Over the years KPW Financial has helped many couples establish Financial Life Plans. For more information about Life Planning, contact our office to set up a meeting to determine if Life Planning can work for you

PROTECTING YOUR LIFESTYLE BY KPW

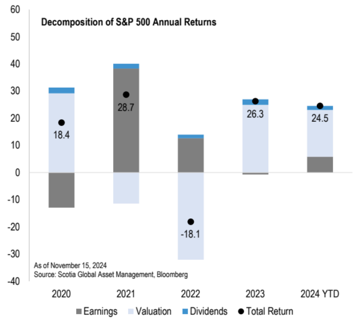
Macro Musings

Myles Zyblock, MA, CFA
Chief Investment Strategist

Kien Lim
Associate Strategist – Macro Research

Jason Nguyen, MBA, CMT, CFA
Associate Strategist – Quantitative Research

Equity Valuations Expand



This year's 24.5% total return gain for the S&P 500 has been largely due to valuation expansion. A smaller third of the return is attributable to earnings and dividends. Valuation change represents the dominant factor in short-term return dynamics, a force that has shaped these interim returns over more than the past century.

The valuation for the U.S. equity market stands near its highest level of the past 4 years. Valuation levels offer little help to define the return stream through the next 9-12 months. Value is better thought of as a risk metric, whereby the downside performance is usually larger for an expensive market upon the unexpected event of disappointment.

The economy continues to grow. Consumers are showing an unfettered willingness to spend. Despite the elevated valuations for the equity market, it is difficult to get too negative on return prospects. That being said, it seems like a time to look beyond the mega caps for better risk-adjusted return opportunity.

Bottom Line: Equities remain our favored asset class, while seeking lower valued and higher upside opportunity.

PRIVATE WEALTH:
SOLUTIONS FOR HIGH-NET-WORTH INVESTORS

CREATING A LEGACY OF FINANCIAL AFFLUENCE

ALTER-EGO TRUSTS

By: Sergio Simone

Alter-ego trusts have emerged as a powerful tool for Canadians looking to simplify their estate planning, avoid probate fees, and ensure a smooth transfer of wealth. Specifically designed for individuals aged 65 or older, these trusts offer unique advantages, including ongoing control of assets and deferred capital gains taxes until the death of the settlor or surviving partner. As more Canadians prioritize financial security and tax efficiency in their later years, understanding the strategic benefits of these trusts is critical for preserving wealth and minimizing administrative burdens for future generations. In this article, we delve into how alter-ego trusts work, their key advantages, and how they can fit into a comprehensive estate plan.

Before continuing I would like to note that this article is for informational purposed only. Please consult a professional for specific guidance.

Alter-ego trusts are an effective estate planning tool available to Canadians aged 65 or older, designed to simplify asset management and enhance financial security during their later years. These trusts allow individuals to transfer assets into the trust during their lifetime without triggering immediate capital gains taxes.

Unlike traditional inter vivos trusts, alter-ego trusts defer taxes until the settlor's death or the trust's termination. The settlor retains full control over the assets within the trust and serves as the sole income beneficiary, ensuring continued flexibility and oversight. Additionally, assets held in an alter-ego trust bypass the probate process, reducing probate fees and preserving the settlor's privacy.

These trusts also offer the advantage of streamlined estate administration, as assets are managed directly through the trust, minimizing the need for executors or court involvement. Alter-ego trusts are an option for individuals seeking to preserve wealth, manage taxes efficiently, and maintain control over their estate.

Let's look at a real-life example of an Alter-Ego Trust.

Mary is a 70-year-old retired teacher living in Ontario. She owns a home valued at $1.5 million, has an investment portfolio worth $1 million, and a bank account with $200,000. Mary is concerned about the costs and delays associated with probate and wants to ensure her assets are smoothly transferred to her two adult children upon her passing. She also wants to avoid family disputes and maintain control over her assets during her lifetime.

Mary arranges to meet with an estate planning lawyer to set up an Alter-Ego Trust, naming herself as the trustee and sole beneficiary during her lifetime. Mary then transfers her home, investment portfolio, and bank account into the trust.

By transferring her assets into the trust, Mary does not trigger any capital gains taxes, which would typically apply to inter vivos trusts. Instead, the tax on any unrealized gains will be deferred until her death.

As the trustee, Mary retains full control over the trust's assets. She continues to live in her home, make investment decisions, and operate her bank account as she did prior to the trust being established. Mary experiences no immediate change in how she manages her finances or household.

When Mary passes away, the assets in the Alter-Ego Trust will not form part of her estate and therefore will bypass probate.

This will save her estate from paying probate fees which would be 1.5% of her estate value in Ontario. This means that Mary's estate would save an amount of $41,250 on her $2.7 million estate.

In the trust document, Mary names her two children as the beneficiaries of the trust after her death. She also names a trusted friend as the successor trustee, who's responsibility is to manage the distribution of assets to her children according to Mary's wishes. This ensures a seamless transfer of wealth without court involvement.

Alter-Ego Trusts come with a couple of other innate benefits. Unlike a will, which becomes a public document during probate, the terms of the Alter-Ego Trust remain private. Mary can transfer her properties as she sees fit without anyone knowing the details after her death.

Another advantage of the trust occurs if Mary becomes incapacitated. In this case, the successor trustee can step in to manage the trust's assets without requiring a power of attorney or court intervention.

Upon Mary's death, her home, investments, and remaining funds in the trust are distributed directly to her children as specified in the trust agreement. Her estate avoids the probate process, saving time, fees and potential disputes. By using an Alter-Ego Trust, Mary achieves her goals of maintaining control, minimizing taxes, and ensuring her wealth is transferred efficiently to the next generation.

At Mary's death, the Alter-Ego Trust triggers a deemed disposition of the assets within the trust. This means that, for tax purposes, the Canada Revenue Agency (CRA) treats all assets in the trust as if they were sold at their fair market value (FMV) immediately before her death. Here's how the tax implications would be computed for Mary's estate.

1. Capital Gains Tax

The capital gain on each asset is calculated as:

Capital Gain=Fair Market Value (FMV)−Adjusted Cost Base (ACB)

Mary's assets in the trust include:

Home (Principal Residence): $1.5 million

Investment Portfolio: $1 million

Bank Account: $200,000

Breakdown:

Home:

If the home is designated as her principal residence, the capital gain on it will be fully exempt from taxes due to the principal residence exemption.

If Mary owns other properties, she may only partially exempt the home under the principal residence rules, and the remainder would be taxable.

Investment Portfolio:

The FMV of her investments at death is $1 million.

Assume her ACB is $600,000.

Capital gain = $1,000,000 (FMV) - $600,000 (ACB) = $400,000.

Taxable capital gain: 50% of $400,000 = $200,000.

Bank Account:

Bank deposits are not subject to capital gains tax. The balance will be distributed to the beneficiaries without any additional tax implications.

2. Final Tax Return

The trust must report the deemed disposition of all assets on a T3 Trust Tax Return or a terminal return (final tax return) for Mary.

The taxable capital gains (e.g., $200,000 from the investments) are included as part of her total income for the year of her death.

Assuming Mary's marginal tax rate is 40%, the tax liability on the $200,000 gain would be: 200,000×0.40=80,000 (tax payable on capital gains from investments).

3. Estate and Beneficiary Implications

After taxes are paid on the deemed disposition, the remaining assets are distributed to Mary's beneficiaries (her two children) as specified in the trust.

The assets pass to her children on a step-up in basis, meaning the children will inherit the assets at their fair market value as of the date of Mary's death. This ensures no immediate tax liability for the beneficiaries when they receive the assets.

Summary of Tax Implications:

Principal Residence Exemption may shelter the home from capital gains tax.

Investments generate a taxable capital gain of $200,000, resulting in a tax bill of approximately $80,000.

Cash in the Bank Account is not subject to capital gains tax.

The total tax liability is paid from the trust, ensuring Mary's beneficiaries receive their inheritance without additional tax burdens related to her estate.

While capital gains taxes are inevitable in most cases, effective estate planning can defer or reduce these taxes. Strategies like spousal rollovers, principal residence exemptions, and trust planning are essential tools for deferring taxes and preserving wealth for future generations.

While Life Insurance does not defer capital gains taxes, it can provide liquidity to cover taxes owed at death.

Using a joint last-to-die insurance policy, the death benefit is paid after the second spouse's death, when the deferred taxes become due, ensuring the estate has sufficient funds to pay taxes.

Alter-ego trusts offer a unique and flexible estate planning tool that can provide significant benefits for individuals seeking to maintain control over their assets while enjoying tax advantages and creditor protection. By understanding the intricacies of these trusts and working with a knowledgeable financial advisor or attorney, you can effectively incorporate an alter-ego trust into your overall financial strategy. As with any financial decision, it's essential to carefully consider your specific circumstances and goals to ensure that an alter-ego trust aligns with your long-term objectives. With the right planning and guidance, you can achieve peace of mind and secure your financial future.

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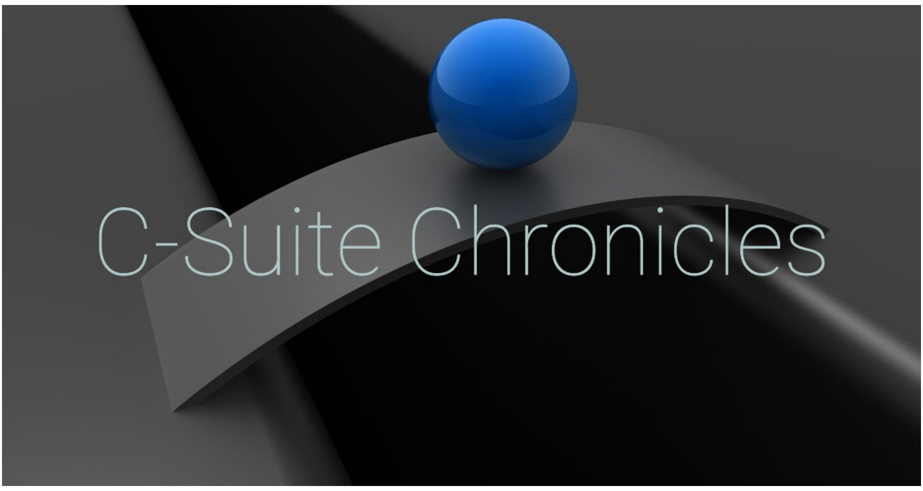

FINANCIAL ADVISORS OFFER MORE THAN FINANCIAL ADVICE

By Sergio Simone

I recently read an article written by Wilmot George, who is vice-president, Tax, Retirement and Estate Planning at CI Global Asset Management. The article was directed to participants in the Financial and Investment Industries. It focuses on key questions that financial advisors should be asking business owner clients.

We are all aware that small and medium sized business owners are the foundation and backbone of the Canadian economy. From my perspective wealth management often plays an important role in the success of these people. Financial advisors often act as the "quarterback" between a business owner and his other professional advisors like accountants and lawyers.

Financial advisors are often the "go to" professionals for generalized information that can help business owners better understand key information regarding tax, retirement and estate planning concepts. They are often in a position to offer solutions to concerns expressed by these business owners.

I liken the Financial Advisor to the General Medical Practitioner (GP). Your GP is a generalist who understands the foundation of most medical conditions. The GP also has a network of specialists that can be called on when necessary to remedy problems. The licensed Financial Advisor works in much the same way. They understand the basics of most accounting and legal issues relating to a person's business and have a network of professionals available to deal with the heavy lifting. According to George, your advisor should have a good understanding of the following:

- The pros and cons of different business structures (e.g., sole proprietorship, partnership, corporation);
- How income from a business is taxed (e.g. active business income versus passive or investment income);
- How to generate recommendations for investment solutions tailored to the business and its owner's unique circumstances
- Understand the options available for extracting cash flow from a corporation
- Concepts for succession planning for both retirement and at death (e.g., lifetime capital gains exemption, asset versus share sales, post-mortem planning to avoid double taxation at death); and
- What thought provoking questions to ask in order to pique the interest and promote planning conversations with business owners.

An experienced financial advisor should be able to inspire a business owner to think deeply about the financial planning aspects of their business. A thought provoking conversation often leads to business owners sharing more as they look to improve their planning and wealth.

Disclaimer

George suggests that the following questions have been designed to pique interest and promote dialogue around tax, retirement and estate planning for business owners. By asking these questions, tax, legal and financial advisors can work with business-owner clients to identify planning opportunities and address points or concerns.

Do you understand the potential value of incorporation?

Depending on the circumstances, incorporation can provide creditor protection and create tax-deferral opportunities. It can also create tax savings upon sale or at death via the lifetime capital gains exemption if the business qualifies.

Do you know the difference between active and passive income for tax purposes?

Different tax rates apply to active business income versus passive income and depend on the type of passive income earned. Also, for corporate investors, the amount of passive income earned each year can affect the tax rate that applies to business income.

Are you aware of the options for extracting cash flow from your corporation?

Salary and dividend payments are common. There might also be capital dividend, return of capital and shareholder loan payment options. The best option(s) will depend on the circumstances, and understanding the options can lead to the best fit.

Do you understand the difference between a share sale and an asset sale when exiting a business?

When exiting a business via a sale, the structure of the sale can affect price, and tax implications often play a role. Sellers typically prefer a share sale (especially where the business qualifies for the lifetime capital gains exemption), while buyers often prefer an asset sale (to allow for choice of assets). Quite often, the eventual sale price is determined based on these factors.

Have you thought about a succession plan for your business at death?

Estate planning can be complex when it involves a business. Who should inherit the business? Should family members continue with the business, or should they be bought out? How will taxes be paid? What role might insurance play? A well-thought-out estate plan can minimize taxes, simplify estate settlements and reduce the potential for conflicts after death.

The above questions are not exhaustive. There are many more questions that the answers to these can lead to. The main purpose of this line of action is to create a dialogue with a business owner and perhaps get them thinking in ways they hadn't previously.

These are the types of conversations that often lead to the discovery of subliminal issues, that when remedied often provide profitable and self-actualized benefits for the business owner.

SMALL BUSINESS STATISTICS FROM BDC

- ⇒ Small and medium-sized businesses make up 55% of Canada's gross domestic product;
- ⇒ 98% of businesses that employ staff have less than 100 employees;
- ⇒ 64% of private sector jobs are at small or medium-sized enterprises;
- ⇒ Small and medium-sized businesses are important throughout Canada, with 16% located in B.C. and the Territories, 20% in the Prairies, 37% in Ontario, 21% in Quebec and 6% in Atlantic Canada.

PHOTO BY GETTY IMAGES/STOCKPHOTO

YEAR-END TAX TIPS: HERE'S WHAT IS UNIQUE TO 2024

By: Jamie Golombek. Published Nov 15, 2024 in Financial Post

With just six weeks to go before Dec. 31, now is the perfect time to begin your year-end tax planning. Here's a few things to consider, which are unique to 2024.

Tax-gain selling

The 2024 federal budget proposed an increase to the capital gains inclusion rate for gains realized on or after June 25, 2024, whereby the inclusion rate was increased to 66.67 per cent, up from 50 per cent. Individuals and certain trusts (specifically, graduated rate estates and qualified disability trusts) are still entitled to the former 50 per cent inclusion rate on the first $250,000 of capital gains annually. The increase in the tax rate on capital gains over $250,000 is about nine percentage points, depending on your province or territory of residence.

While the legislation hasn't yet been passed, it's widely expected to eventually receive royal assent, and be effective as of this June 25. For investors with significant accrued capital gains in their portfolios, a new tax planning option exists for 2024.

Consider whether it's worth crystalizing up to $250,000 of capital gains before year end to take advantage of the lower 50 per cent inclusion rate. Crystallization for publicly traded shares is as easy as selling the position on the open market and immediately buying it back. Note that, unlike for loss crystallization, there's no equivalent superficial gain rule, meaning you don't need to wait 30 days to buy back the stock on which you crystalized a capital gain.

For 2024, the last trade date is Dec. 30 for the trade to settle by Dec. 31.

When deciding whether to make this move, consider your expected rate of return and time horizon. For example, if the tax that you don't pay for 2024 was invested to earn six per cent capital gains, compounded annually, it would take about eight years of tax-deferred growth, after-tax, to beat the tax savings attributable to the lower inclusion rate.

First Home Savings Account

If you're a first-time homebuyer who is a resident of Canada and at least 18, the first home savings account (FHSA) allows you to save on a tax-free basis toward the purchase of a home in Canada.

A first-time homebuyer means you didn't live in a home that you or your spouse or partner owned as your principal place of residence in 2024, or in the previous four calendar years.

Starting in the year that you open an FHSA, you can contribute (or transfer from a registered retirement savings plan, or RRSP) a total of $8,000 plus any carryforward (up to another $8,000) available from the previous year, and up to $40,000 during your lifetime.

If you opened an FHSA in 2023 but did not yet make any contributions to the FHSA, you can contribute up to a total of $16,000 in 2024. You can claim a tax deduction for contributions within this limit in the year the contribution was made and any unused contributions can be deducted in any future year. Unlike RRSPs, contributions you make within the first 60 days of 2025 cannot be deducted in 2024, meaning that there is a hard contribution deadline of Dec. 31, 2024, for the 2024 contribution.

It's important to keep in mind that because FHSA room only begins accumulating once you open up your first FHSA, it may be worthwhile opening up your first FHSA by Dec. 31, 2024, even if you don't have the funds to contribute the full $8,000 this year. That's because by merely opening up the account in 2024, you'll generate $8,000 of FHSA contribution room for 2024, and on Jan. 1, 2025, generate a further $8,000 of room, meaning that you could contribute up to $16,000 next year.

The best part of the FHSA is that the contributions can grow tax-free for up to 15 years, and withdrawals to purchase a qualifying home, including withdrawals of any investment income or growth earned in the account, are non-taxable, just like tax-free savings account withdrawals.

And, if you choose not to use the FHSA to buy a first home, you always have the option (until the end of the year you turn 71 or 15 years after opening an FHSA, whichever comes first) of transferring the entire fair market value of the FHSA to your RRSP or registered retirement income fund (RRIF) on a tax-free basis. These transfers don't use RRSP contribution room, and the funds now in your RRSP or RRIF will only be taxed upon ultimate withdrawal (or upon death).

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Parents or grandparents of children or grandchildren over the age of majority (18 or 19, depending on your province or territory of residence) may wish to consider gifting up to $8,000 to each child or grandchild so that they can open up their own FHSA to save for their first home. While an 18-year-old in Grade 12 may not need a tax deduction right now, as they likely don't have a lot of income, they can hang on to the FHSA deduction and claim it in a future year when they're in a higher tax bracket and the deduction is worth something.

Alternative Minimum Tax

Finally, new for 2024 is the updated alternative minimum tax (AMT) regime, which imposes a minimum level of tax on taxpayers who claim certain tax deductions, exemptions or credits to reduce the tax that they owe to very low levels. Under the AMT system, there is a parallel tax calculation that allows fewer deductions, exemptions, and credits than under the regular income tax calculation. If the amount of tax calculated under the AMT system is more than the amount of tax owing under the regular tax system, the difference owing is payable as AMT for the year.

The good news is that the new AMT will only affect taxpayers whose taxable income in 2024 is over $173,205. But, if you're in that tax bracket, and expect to claim large tax deductions on your 2024 return, such as loss carryforwards from prior years, or significant deductible interest expense, you'd better speak to your tax accountant well before Dec. 31 to take advantage of some last-minute planning to reduce or perhaps eliminate that AMT bite for 2024.

Jamie Golombek, FCPA, FCA, CFP, CLU, TEP, is the managing director, Tax & Estate Planning with CIBC Private Wealth in Toronto. Jamie.Golombek@cibc.com.

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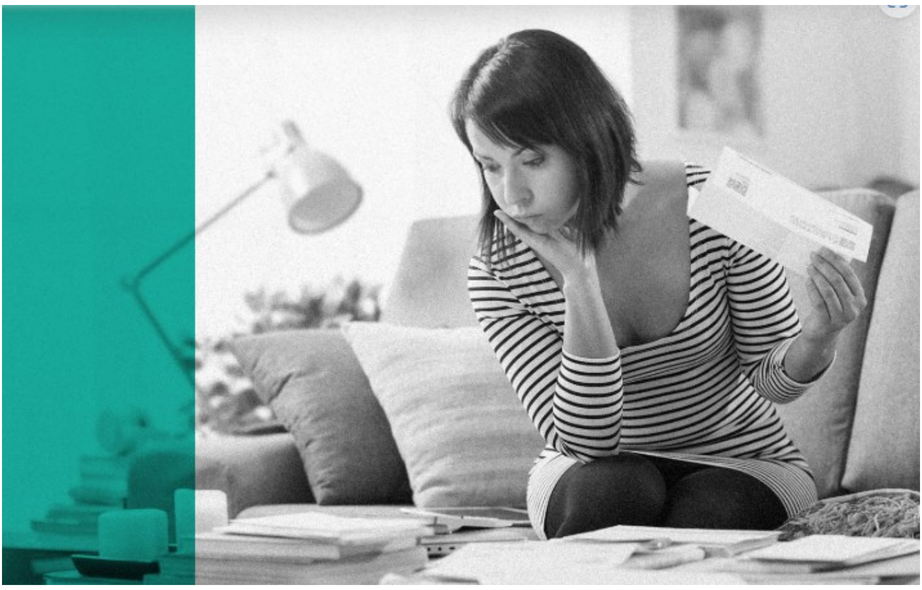
CANADIANS' FINANCIAL CONFIDENCE STABILIZING, BUT RECESSION FEARS PERSIST: SURVEY

Majority believe economic conditions are poor in Canada, Ipsos study shows.

By Noushin Zlafati—November 21, 2024.



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With price pressures cooling this year, the financial confidence of Canadians is stabilizing. But trust in the economy remains shaky, according to a survey conducted by Ipsos.

The 2024 IG Wealth Management Financial Confidence Index mirrored last year's score of 50. That's down one point from 2022 and seven points from 2021.

The index is based on an online survey of 2,001 respondents, fielded from Sept. 20 to Oct. 1. The results come on the heels of a Statistics Canada report that the country's inflation rate ticked back up to 2% in October.

"While the Index has stabilized since the pandemic, there's still a clear sense of anxiety among Canadians as we head into 2025," said Damon Murchison, president and CEO with Winnipeg-based IG Wealth Management, in a release Thursday.

"This isn't surprising – over the last year, Canadians have had to deal with political uncertainty, a higher interest rate environment, a rising cost of living and spiraling housing costs."

The survey revealed that there is growing optimism about inflation, with more believing it will stabilize or decrease than did a year ago. Thirty-nine per cent of respondents said they expect Canada's inflation rate to stabilize, up from 32% who shared this sentiment in 2023. And 10% said they expect the inflation rate to decrease, up from 6% last year.

At the same time, the portion of Canadians expecting inflation to increase fell, from 49% in 2023 to 38% this year.

Fears of a recession persist, although they have eased up, IG said.

Nearly half of respondents said they believe that Canada is currently in a recession, down from 60% who expressed this belief in 2023. And 54% said they believe that Canada is heading into a recession in 2025, down from 68% a year ago.

Nearly seven in 10 respondents said they believe economic conditions in Canada remain poor, while 63% of respondents said they don't believe financial authorities have the situation under control.

The top financial concerns for 2025 were rising food prices, being able to maintain one's current standard of living and an increase in the cost of housing, the survey revealed.

While trust in the economy is stable nationally, it is trending downward in Quebec and among younger and lower income Canadians, IG said.

By region, residents of British Columbia had the highest level of financial confidence, scoring 55 in the index. The least optimistic region was Atlantic Canada, which had a score of 48.

Respondents with a financial advisor reported a confidence level that was 15% higher than those without, the survey found.

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WHY THE TRUMP TRADE MAY BE MORE COMPLICATED THAN SOME INVESTORS THINK

BY Kevin McCreadie, MBA, CFA

AGF's CEO and Chief Investment Officer, Kevin McCreadie, weighs in on the potential pros and cons of another four years of President-elect Donald Trump in the White House.

Why have global equity markets rallied higher since the U.S. election?

Donald Trump's resounding victory was a big sigh of relief for investors worried about a contested result disrupting financial markets and leading to heightened volatility and potential losses. Yet, the more important catalyst associated with Trump's win over Vice-President Kamala Harris – and the Republicans' sweep of U.S. Congress as well – may be the promise that comes with it of a more business-friendly regulatory agenda in Washington over the next four years.

In particular, it's widely expected that the President-elect will enact new legislation to extend personal tax cuts due to expire in the future, while potentially lowering further existing corporate taxes. Rules and regulations governing a wide range of sectors and industries including most notably Energy, Utilities, Financials, Industrials, Materials and Telecommunications could see meaningful relief. All of this, of course, is anticipated to spur economic growth and thus drive corporate earnings higher, making risk assets like stocks even more attractive than they were heading into the election.

Is there a caveat to this growing investor optimism?

First and foremost, investors need to be aware that some of the policies being championed by President-elect Trump may not end up becoming law or, if they do, could be significantly watered down from the rhetoric, in our opinion, and less of an advantage to certain sectors and companies than markets have now priced in. For example, is the electric vehicle industry really going to be the domain of one company and bolstered by diminished oversight for autonomous driving? Or is the federal government really going to create a strategic reserve for cryptocurrencies? Sure, it's possible, but trading on rumour can be a dangerous game and some of the outsized gains we've seen could potentially be reversed if actual policies don't live up to the hype.

Similarly, some of Trump's cabinet picks and their views on certain sectors are already having an outsized negative impact in markets. Think about future defense policies, or a move to cut federal spending, and, in the case of healthcare, uncertainty around new regulations encompassing drug discovery or pricing.

These negative moves in prices may also be overdone if actual policy differs from the rhetoric, or these appointees can't get confirmed.

What's equally concerning about a Trump administration is that many of his policies are potentially inflationary in nature. This is especially true of his purported plans to slap 60% tariffs on all goods coming in from China and 10 to 20% tariffs on goods imported from all other countries. Indeed, if this pledge becomes reality, both U.S. companies and U.S. consumers may feel the pinch. It just depends on whether the former decides to absorb the cost of the increased levies or passes them on to the latter.

Then there's Trump's immigration policy, which may be inflationary to some extent as well. For instance, his pledge to deport millions of "illegals" when he takes office next January will require many businesses to attract workers to replace deported labourers. Yet, given historically low unemployment right now, doing so may require some of these same businesses to pay higher wages than would otherwise be the case. And that could end up being passed onto consumers in similar fashion to higher tariffs.

Finally, while Trump's pro-growth agenda has been a positive for U.S. equity markets, the same cannot be said for all global equity markets – some of which are perceived "losers" in this agenda. Moreover, it should be noted that his victory has been met with some resistance from bond investors too.

Indeed, interest rates have backed up a fair bit since before the election on the risk that some of these policies – and fiscal spending that comes with them – could overheat the economy at a time when taming inflation is still a concern. Ultimately, were this the case, a slightly less optimistic viewpoint from both U.S. bond and equity investors would likely emerge in the process.

To that end, how might Trump's pro-growth (and potentially inflationary) agenda impact U.S. monetary policy?

U.S. Federal Reserve (the Fed) Chair Jerome Powell said the day after the election that the result of it has no bearing on the central bank's near-term decisions. But we believe it could still have a profound impact on the Fed's plan to ease policy in the New Year, particularly if Trump's policies do accelerate economic growth and/or fuel inflation.

In fact, Powell has also said in recent days – to the chagrin of some investors I might add – that he and many of his colleagues are in no rush to lower rates further because "the [U.S.] economy is not sending signals that we need to be in a hurry…"

That hardly means the Fed is on hold until further notice. We believe it's still widely expected that the Fed will cut a quarter point in December. But it does suggest plans to move much less aggressively than U.S. equity markets have been anticipating since the Fed's first rate cut this past summer and the possibility that it could slow the pace even more should economic conditions start sending signals that growth is too strong and inflation has been reignited.

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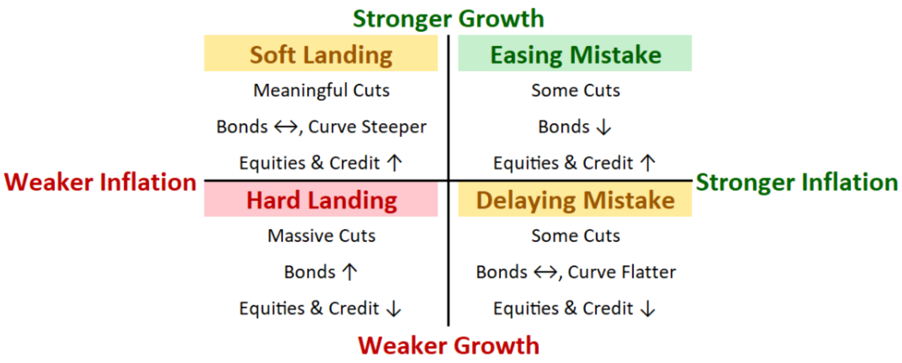
“Bonds typically rally during the early stages of a “cuts” regime, but we must remain cognizant that not all “cuts” regimes are the same. Our full-cycle framework considers 4 possible sub-regimes within the “cuts” regime: 1. Soft Landing, 2. Hard Landing, 3. Easing Mistake, and 4. Delaying Mistake... The current narrative is a Soft Landing… The narrative is likely to fluctuate between multiple sub-regimes.”



Furthermore, recall our criticism regarding the extended market pricing for a Soft Landing in early September:

“How likely is the current market pricing of 10 initial cuts? …70% of [historical] cases had the central bank pause after only a handful of initial cuts… When the central bank paused after only a handful of initial cuts, bondholders suffered painful drawdowns… 10y bond drawdowns averaged -3.9%, with a worse-case drawdown of -6.1%... In any case, bonds tend to be volatile, and investors will need to be tactical.”

In the two months since publishing that outlook, the narrative has indeed fluctuated with recent hints of an Easing Mistake and increased odds for a near-term pause. Market pricing has shifted from a meaningful -250bps of cuts to some -150bps of cuts, and the 10y yield has risen +80bps, resulting in a painful -6% drawdown for passive 10y bondholders.

While the Federal Reserve’s focus may continue fluctuating between “how fast” (-25 or -50 bps cuts?) and “how far” (stop cuts at ~3% or ~4%?), we remain firmly in a “cuts” regime so long as the Federal Reserve’s focus does not abruptly shift to “reversal hikes”. Hence, “significant” bond drawdowns should be bought. This leaves us with two important questions…

How likely is an abrupt shift to “reversal hikes”?

Is the current bond drawdown “significant” enough to buy, given the new Trump risks?

1. How likely is an abrupt shift to “reversal hikes”?

Consider the 1995/1996 cutting cycle where the Federal Reserve cut -75bps as GDP slowed from 4% to 2%. Within 6 months of the final cut, GDP surged back to 4% and the 10y yield rose +150bps off the low. Transcripts from the Federal Reserve’s July 1996 meeting portray a committee caught off-guard by the rebound with some committee members pushing for “reversal hikes”. Below is then Chairman, Alan Greenspan’s, masterful pushback:

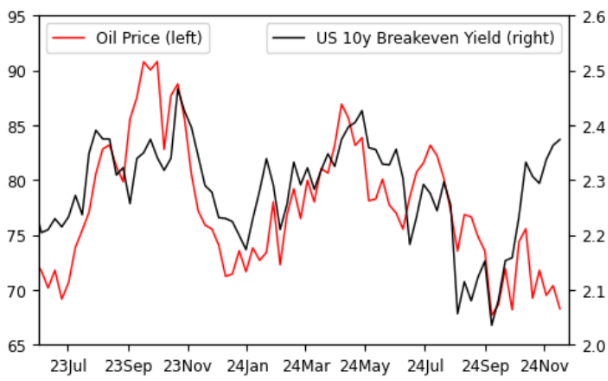
“We have held in check our normal response to tighten in the face of an accelerated expansion… We have done so wisely because credibility is at stake… The public has to have confidence that the Fed knows what it is doing… If we are perceived to have been compelled by market forces to quickly reverse, our reputation will suffer a severe blow. This will weaken our future ability… While I would not describe our policy as tight, it is scarcely accommodative… We have time to look, largely because in my judgment our current posture is not that far from the mark… The economy may surprise us and accelerate at an unexpected pace. This may require action on our part… But we have to be aware in this particular context that to reverse direction requires a somewhat higher hurdle of evidence than would be required if we were merely continuing a previous trend of policy moves. Given the recent history of sequential policy moves, any move in a new direction would suggest to the markets that there will be additional moves in the same direction.

Although we could endeavor to disabuse the markets of that, my suspicion is that we would fail."

The Federal Reserve resisted hiking for another 8 months after that meeting, resulting in a long 14 months pause between the last cut in January 1996 and the first hike in March 1997. With today's Federal Reserve similarly struggling with credibility issues, we believe an abrupt shift to "reversal hikes" is very unlikely.

2. Is the current bond drawdown "significant" enough to buy, given the new Trump risks?

The US 10y yield has risen +80bps from the low of this cutting cycle. There have been 4 prior cases (Jun 2008, Nov 2001, Mar 1992, Feb 1990) where the 10y rose +80bps during a Federal Reserve cutting cycle; the average return for the 10y bond over the next 6 months was +8% with 100% of cases having positive returns and 2 of 4 cases having double-digit returns. There have been 14 prior cases where the 10y rose +50bps during a cutting cycle; the average return for the 10y bond over the next 6 months was +9% with only 1 of 14 cases having a negative return (-2%). Based purely on historical analogs, the current bond drawdown qualifies as "significant" enough to buy.



The US 10y yield of ~4.4% can be broken down into ~2.0% of real yield and ~2.4% of inflation compensation. Despite oil prices, the largest driver of inflation, struggling with Trump's "drill, baby, drill" plan, market pricing for 10y inflation compensation has surged ~40bps since early September. Market pricing has now reached the highest level since year-over-year CPI was a full +1% higher than it is today.

Alternatively, the US 10y yield of ~4.4% can be broken down into ~4.2% from the expected path of short-term yields (neutral rate) and ~0.2% from compensation for uncertainty regarding that expected path of short-term yields (term premium). Both measures are significantly higher than early September and the highest since the bond tantrum of October 2023.

Given those recent increases of ~40bps for inflation, ~100bps for the neutral rate, and ~50bps for term premium, are we sufficiently compensated for the new Trump risks?

We believe the bond market is too narrowly focused on the obvious first order effects from Trump's proposed tariffs and tax cuts (tariffs = ↑ inflation = ↑ yields; tax cuts = ↑ deficit = ↑ yields).

The US imports $0.5T per year from China and $2.5T per year from the rest of the world. Trump's tariffs of 60% for China and >10% for the rest of the world equates to roughly $0.8T. Assuming a more reasonable but still significant 30% for China and 5% for the rest of the world, a 10% reduction in imports to account for trade rebalancing, and 80% pass-through to US consumers, the tariff cost drops to just $0.2T ([0.5T*30%+2.5T*5%]*90%*80%). Coincidently, Trump's tax cut from 21% to 15% on corporate profits of $3.5T per year equates to a $0.2T (6%*3.5T) impact on the fiscal deficit. The net result is Trump collecting $0.2T in tariff revenue to offset $0.2T in corporate tax cuts with a one-time price level adjustment of just 70bps (0.2T/30T US GDP).

Meanwhile, the bond market is ignoring more complex economic headwinds such as a stronger dollar constricting global growth, geopolitical escalation hurting foreign sentiment, and potential spending cuts from a Republican sweep elected with a mandate to solve inflation.

In summary, based on the historical analogs, the underlying drivers of the bond drawdown (inflation compensation/neutral rate/term premium), and the new Trump risks, the current bond drawdown is starting to qualify as "significant" enough to buy on a medium-term framework. On a short-term framework, we will respect price action and remain mindful that upside surprises may continue, particularly if growth is pulled forward in advance of the potential tariff and geopolitical escalation in 2025.

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WHAT JUST HAPPENED?

I can't tell whether I'm growing up, or having an identity crisis. Or let's put it differently: I'm trying to grow up, and it's causing me to have an identity crisis!

Here's what I mean. I have had an apocalyptic bent about markets and the economy from a pretty young age. Who knows why, although I believe horror movies (everything's always going great just before something terrible happens), history (the Great Depression! The crash of '87! Japan's "lost decades"!), and the Federal Reserve (whose human control over interest rates seems to constantly create problems) all play a role.

And then I walked onto the scene of financial journalism in 2007, literally as the housing bubble was popping--which became the first time in modern history that home prices actually fell on a national basis--and the "great financial crisis" began. Did I see it coming? You bet. Unfortunately, like the saying goes, I also saw nine of the next four recessions coming.

In my early twenties, I had no money, and therefore no "skin" in the game. Fortunately, thanks to my dad's endless 401(k) discussions in our house growing up, I knew I had to put whatever I could into that account as soon as I could, which turned out to be in 2009. Nice timing, with the market bottom. Now, I'm almost 40, and it has really turned into something from those seemingly small contributions over the years. Thank you, dad!

It would have been more, though, if I hadn't gone to cash in 2012, when I was switching jobs, and convinced we were headed for a double-dip recession. There was good reason to fear that; we had ultra-low interest rates, sluggish growth, the fiscal cliff and the U.S. debt downgrade saga, and so forth. I thought I'd have time, and better entry points, to buy back in; nope. I eventually had to buy back higher.

I promised myself I'd never try to time the markets again. But then last year, I couldn't resist. We had a chunk of money from a real estate transaction; why put it in stocks, I thought, when we could collect 5% in Treasury bonds and buy back into the market after it sold off? After all, the economy looked like it was rolling over. (I'm still mad about the "false positive" from jobless claims, but at least I learned my lesson this time around.)

Lo and behold, we ended up buying back into the market higher again. We've also been funding kids' 529 plans and so on, and each time, my husband and I look at each other and think, what if we're buying at the highs? What if it just goes straight down, or nowhere, from here?

I at least felt better when Doug Boneparth told us on Power Lunch this summer that the biggest problem he has with clients--especially with millennials like us--is that they're too financially conservative.

So, it's only taken me 17 years in the business, but I'm finally coming around. Now, I wish we had been so much more aggressive putting money in the stock market over the years.

The problem is, it feels so unnatural to me to be so...bullish (at least in the long run). I can still rattle off a litany of reasons why past won't be prologue--the demographic winter! inflation! regulations will stifle innovation! we're turning into Europe! the Fed is behind the curve again! these gains are all just nominal, not real! AI is a bubble!--see? But I'm no longer behaving that way. The cost of being out of the market (or gold, Bitcoin, real estate, or other assets) is just too high.

And the other problem is that when I told my husband I was going to write this, he said, now that's really the sign of a top!

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PROPRIETARY REAL ESTATE RESEARCH

AI-Driven Insights into Key Factors Influencing Canada's Rental Market

In partnership:

JOHN MOLSON SCHOOL OF BUSINESS
Concordia University
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Executive Summary

Challenges around housing affordability have become a global phenomenon, growing in severity over the last decade. In this respect, Canada is one of the most affected advanced economies in the world.

A convergence of factors has led to the unique state of the Canadian real estate market when compared to the global experience, especially among the G7 nations. Among these countries, Canada suffers the lowest average housing supply per capita at 424 units per 1,000 residents. An aggressive immigration policy enacted by the Canadian government has seen Canada's explosive population growth exacerbate an already stretched supply/demand imbalance. In just the first nine months of 2023, Statistics Canada noted that the country had seen a higher level of population growth than "any other full-year period since Confederation in 1867." Last year, Canada welcomed roughly the same number of migrants as the United States, a country some 10 times its size.

The Canada Mortgage and Housing Corporation estimates that Canada must add 5.8 million new housing units by 2031, 2.2 million of which needs to be purpose-built rental. To put this number into historical perspective, Canada has built approximately 570,000 rental units in the last 30 years. Total housing completions have tended to fall just shy of 200,000 per year, looking back over 50 years of data.

Existing analyses of Canada's housing aAordability issues have not focused sufficiently on identifying local factors, which is crucial for driving effective policy changes. To address this gap, it is essential to thoroughly examine the underlying factors contributing to the crisis and identify actionable solutions.

This proprietary research, supported by artificial intelligence (AI) and a neural network machine learning model, aims to enhance the Canadian real estate industry's understanding of the supply/demand dynamics within the Canadian multi-family 2 residential market at a granular level. By predicting the impacts of key drivers on rental measures like median rent prices and vacancy rates at both the census subdivision and regional levels, we can uncover valuable insights.

We begin our analysis by determining the factors influencing rents and vacancy rates. Our findings demonstrate a positive correlation between higher market rents at the census subdivision level and a higher fraction of immigrants, more non-permanent residents, a greater share of the population working from home, higher educational attainment (bachelor's degrees), and higher median income. Factors such as the local unemployment rate and a higher fraction of couples without children reduce market rents. An analysis of vacancy rates does not produce economically meaningful results, as vacancy rates are at record low levels (approaching 1%). In this environment, a vacated unit is occupied quickly due to excess demand, breaking the traditional link between economic factors and occupancy.

The model identifies an inflection point along a rents-to-completions curve whereby rents, while still increasing, do so at a decelerating pace until completions (as a percentage of existing stock) reach 11-12% levels.

Importantly, our findings indicate a counter-intuitive association between an increase in housing completions and rising rents. In other words, as supply increases, market rents continue to go up, though the typical supply/demand relationship suggests they would decline. Similar findings are observed across major cities in Canada, and the country as a whole, due to a severe disparity between supply and demand.

While housing supply is broadly classified as a national issue, geographic granularity is crucial to pinpointing where impacts are most significant. Our research identifies the regions most affected by immigration, demographics, and supply constraints, and reveals their impact on market rents. The rental projections can guide both private home builders and government organizations to concentrate their eAorts on markets where the need is greatest. These regions present promising opportunities for investment in both private and public sectors (e.g. housing-enabling infrastructure such as utilities, communications, and transportation systems) and highlight the necessity of preserving existing rental stock and increasing supply new of rental stock. Governments can also bolster eAiciency by utilizing the model's forecasting power to prioritize the reformation of housing policies by census subdivision to reduce development obstacles and actively collaborate with the private sector to spur homebuilding.

Based on local factors, we use a neural network model to project rental growth by applying data on 427 Canadian census subdivisions through 2032. According to our projections, rents in Toronto will increase more than 26% by 2027 and an additional 37% by 2032. Our analysis further shows that housing completions must be increased tenfold to establish what could be considered a balanced supply/demand relationship for the Greater Toronto Area. The figures are starker, still, for Vancouver. Rents in the Greater Vancouver Area are projected to grow by 52% by 2027 and another 53% by 2032. Perhaps a glimpse into population growth policy, the rental growth rate in Montreal is expected to reach approximately 18% by 2027. This is a relatively modest increase compared to other major Canadian cities, likely due to immigration controls in Quebec. The pace accelerates into 2032, rising an additional 34%. Across the country, different subdivisions exhibit variations in rental growth, indicating that effective local policies can help address affordability challenges within specific areas.

A thorough examination of these findings can highlight significant opportunities for investment in Canadian real estate over the next decade and beyond. Additionally, the AI driven long-term projections presented in this research paper can serve as a valuable resource for governments, organizations, advocates, private real estate companies, and other stakeholders, guiding their eAorts to better understand and address Canada's current housing crisis.

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CANADA'S PRICES FOR SERVICES AND SHELTER DECELERATED IN OCTOBER

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THE CANADA CHILD BENEFIT GOES OUT TODAY AS ADVOCATES WARN OF RISING CHILD POVERTY. HERE'S HOW MUCH TO EXPECT

CANADA'S INFLATION RATE TICKS BACK UP TO 2%: STATCAN

CANADIAN DOLLAR WEAKNESS TO PERSIST INTO 2025, EXPERT SAYS

CORPS, TRUSTS AFFECTED BY CAPITAL GAINS TAX CHANGES GET TEMPORARY INTEREST AND PENALTY RELIEF

FEDERAL GOVERNMENT PLANS TO GIVE $250 CHEQUES TO MILLIONS OF CANADIANS, CUT GST

DB PENSION PLAN SPONSORS FACING "BOTTLENECK" IN ANNUITIES MARKET: EXPERT

WHAT YOU'RE GETTING WRONG ABOUT DIVIDEND INVESTING

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WHY INVESTORS SHOULD CONSIDER CANADIAN DIVIDEND-PAYING STOCKS

PAUL TUDOR JONES: I WON'T OWN FIXED INCOME

FOCUS ON VALUATIONS IS KEY WHEN IT COMES TO GLOBAL EQUITIES

2025 INVESTMENT OUTLOOK: AFTER THE LANDING

A REALITY CHECK ON TRUMP'S TRIFECTA

HOW MUCH CASH IS REALLY ON THE SIDELINES?

WHY THE ELECTION RALLY COULD CONTINUE

COMMODITY PRICES TO RISE IN 2025: ORCHARD

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DISCLAIMER

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

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

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

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

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RETURN TO PAGE 1