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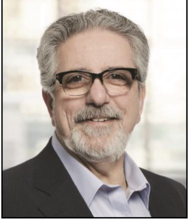
IMAGINE YOUR FUTURE

“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

As I pen this, the S&P 500 boasts an impressive year-to-date return of 28.57%. I sincerely hope you’ve been able to partake in this remarkable growth. We've enjoyed consecutive years of robust market performance, and the question now is: can we sustain this momentum into 2025? We step into the new year with a foundation of strength and optimism. While the specter of volatility looms like an unwelcome guest, with strategic planning and a bit of courage, 2025 could very well be a year you look back on with a smile.

As we step into the new year, many of us investors carry a sense of cautious optimism. However, this year should be different. The markets are fraught with uncertainties, and we all know how much they despise unpredictability.

With a businessman at the helm of the world's largest economy, the landscape is riddled with unknowns. Love him or hate him, Donald Trump's decisions have always sparked intense debate. His approach as a 'deal-maker' rather than a 'consensus-builder' keeps us perpetually alert.

Businessmen are typically goal-oriented, data-driven, direct, and efficient, aiming for win-win solutions. They possess a valuable trait called flexibility, which in the political arena is often seen as waffling.

In contrast, politicians strive to build consensus among diverse groups, are acutely aware of public opinion and media scrutiny, and are more likely to consider long-term ramifications. They negotiate to appease various groups, from constituents to lobbyists, and often employ strategic compromises and alliances to achieve broader goals, even if it means making concessions on specific issues.

Trump's recent election victory is significant, but whether it constitutes a mandate is debatable. He won decisively in the Electoral College but had a narrow popular vote margin. While some see this as a mandate to implement his policies, the divided electorate suggests otherwise. Ultimately, the extent to which his win is seen as a mandate depends on one's perspective, reflecting the complexities of modern electoral politics.

I believe the businessman side of Trump will focus on implementing the key promises he made while campaigning. He pledged to carry out the largest deportation operation in American history, end inflation by increasing oil and gas drilling, and roll back clean energy regulations. He also promised to finish building the wall between the US and Mexico, implement more tariffs on imports, and increase American energy production. Additionally, Trump aimed to end birthright citizenship and extend the tax cuts from his 2017 Tax Cuts and Jobs Act. The big question is: What impact can this have on the economy and markets if Trump fulfills his campaign promises?

Here is my take on a few of these campaign promises.

Disclaimer

THE WAY I SEE IT

Each of these policies carries complex implications, balancing short-term economic gains and potential long-term costs and risks. I will attempt to break down the potential economic and market impacts of several of Trump's campaign promises beginning with the mass deportation operation.

Mass deportations could significantly disrupt the U.S. economy. Immigrants, including undocumented ones, play a crucial role in various sectors such as agriculture, construction, and manufacturing. Removing a large portion of this workforce could lead to labor shortages, driving up wages as employers compete for a smaller pool of workers. This increase in labor costs could result in higher prices for goods and services, contributing to inflation.

I believe the businessman in Trump understands the negative impact to the economy by removing "all" illegal immigrants. He has also commented that the initial focus would be on illegal immigrants who have criminal histories.

Focusing on criminal illegal immigrants for deportation could address public safety concerns and potentially reduce crime rates. This targeted approach might also alleviate some of the labor market disruptions associated with mass deportations, as it would primarily affect individuals involved in criminal activities rather than the broader workforce.

By concentrating on criminal elements, the immediate economic impact might be less severe compared to a blanket deportation policy. The sectors heavily reliant on immigrant labor, such as agriculture, construction, and hospitality, would continue to function with minimal disruption. This approach could help maintain economic stability and prevent the labor shortages that could arise from a more extensive deportation strategy.

Legalizing the remaining working illegal immigrants could have several positive effects on the economy. It would bring a significant portion of the workforce out of the shadows, allowing them to contribute more fully to the economy through taxes and social security contributions. This could increase tax revenues and reduce the strain on public services.

In the long term, this approach could lead to a more stable and productive workforce. Legalized immigrants would be more likely to invest in their communities, start businesses, and contribute to economic growth. The increased consumer spending from a more secure and prosperous immigrant population could further stimulate the economy.

Increasing oil and gas drilling in the U.S. could have several positive effects on the economy. Expanding drilling operations can create numerous jobs in the energy sector and related industries, boosting local economies and increasing household incomes.

Increasing domestic production reduces reliance on foreign energy imports, enhancing national security and stabilizing energy prices. Greater production can lead to lower energy costs for consumers and businesses, reducing living expenses and operating costs. Exporting more oil and gas can improve the trade balance, generate revenue, and strengthen the U.S. dollar. Innovations in drilling techniques can improve efficiency and reduce environmental impact, benefiting other industries as well. Increased drilling attracts investment in infrastructure, creating jobs and stimulating economic activity. While there are environmental and regulatory challenges, the economic benefits of increased oil and gas drilling can be substantial, contributing to a stronger and more resilient U.S. economy.

Rolling back clean energy regulations could have several positive effects on the U.S. economy:

Reducing regulations can lower operational costs for businesses in traditional energy sectors like oil, gas, and coal. This can lead to increased profitability and potentially lower energy prices for consumers and businesses, stimulating economic activity.

Easing regulations can spur investment in traditional energy projects, leading to job creation in industries such as drilling, mining, and construction. These jobs can provide a significant boost to local economies, particularly in regions heavily reliant on energy production.

With fewer regulatory hurdles, energy companies can increase production more rapidly. This can enhance energy security by reducing dependence on foreign energy imports and stabilizing domestic energy supplies. Increased production can also lead to lower energy prices, benefiting consumers and businesses.

Lower energy costs and increased production can contribute to overall economic growth. Businesses across various sectors can benefit from reduced energy expenses, leading to higher profitability and potential expansion. Consumers with lower energy bills may have more disposable income to spend on other goods and services, further stimulating the economy.

Rolling back regulations can attract investment in energy infrastructure, such as pipelines, refineries, and power plants. This infrastructure development can create jobs, improve energy distribution efficiency, and support long-term economic growth.

While clean energy regulations aim to promote sustainable practices, easing them can also drive technological advancements in traditional energy sectors. Companies may invest in more efficient extraction and production techniques, reducing environmental impact while maintaining economic benefits.

While rolling back clean energy regulations has potential environmental and sustainability challenges, the economic benefits can be substantial. Lower operational costs, job creation, increased energy production, economic growth, infrastructure investment, and technological advancements are some of the key positive impacts that can contribute to a stronger and more resilient U.S. economy.

Completing the border wall could have several potential benefits for the U.S. economy and society.

A completed border wall could significantly enhance border security by reducing illegal crossings. This could help prevent the entry of illegal drugs, weapons, and other contraband, contributing to public safety and reducing the burden on law enforcement agencies.

By reducing illegal immigration, the U.S. could save on costs associated with healthcare, education, and other public services provided to undocumented immigrants. These savings could be redirected to other critical areas such as infrastructure, education, and healthcare for citizens and legal residents.

A border wall could help protect jobs for American workers by reducing the influx of undocumented immigrants who may compete for low-wage jobs. This could lead to higher wages and better working conditions for American workers, particularly in industries such as construction, agriculture, and hospitality.

Enhanced border security could also contribute to national security by preventing the entry of individuals who may pose a threat to the country. This could help reduce the risk of terrorism and other criminal activities, ensuring a safer environment for all residents.

Reducing illegal immigration could lead to greater economic stability by ensuring that the labor market is regulated and that workers are legally authorized to work in the U.S. This could help maintain fair wages and working conditions, contributing to a more stable and predictable economy.

The construction of the border wall itself could create jobs and stimulate economic activity in border regions. This infrastructure investment could provide a boost to local economies, creating opportunities for businesses and workers in the construction and related industries.

While the construction of a border wall is a complex and controversial issue, it has the potential to provide several economic and security benefits. Enhanced border security, economic savings, job protection, national security, economic stability, and infrastructure investment are some of the key positive impacts that could contribute to a stronger and more secure U.S.

In conclusion, as we navigate the complexities of 2025, it's clear that volatility will be a constant companion in the markets. However, with strategic planning and a focus on long-term goals, investors can look beyond the immediate uncertainties. Trump's policies, whether it's targeted deportations, increased oil and gas drilling, or rolling back clean energy regulations, each carry significant economic implications. By understanding these impacts and staying adaptable, investors can position themselves to not only weather the storms but also seize opportunities for growth. As always, a balanced approach and a keen eye on both risks and rewards will be essential in making the most of what promises to be an eventful year.

LIFESTYLE
PLANNING
SOLUTIONS
BY RYAN SIMONE, CFP, CLU, CHS

Should I Finance a New Vehicle or Use My Investments: A High-Risk Leverage Tactic

Leverage is a strategy in which an individual borrows money to invest. A person would do this to increase the speed at which they can build potential wealth. Leverage, when done properly is considered “smart debt” but it’s not for everyone. It involves taking on debt, so it is inherently risky. However, it can be a powerful tool to build wealth. Consider the following example:

Imagine you have $50,000 invested and in one year you earn 7% or $3,500. At the end of that year, you would have $53,500. Now imagine if you borrowed $50,000 and added that borrowed money to your own money. So, $50,000 of your own money plus $50,000 of borrowed money. You would have $100,000 invested. A 7% return on $100,000 is $7,000. That means you would have $57,000 of your own money and $50,000 of borrowed money. In other words, you’ve turned a 7% return into a 14% return.

Investment loans are a funny thing. They scare people because they are debt. Plain and simple. But I know another type of debt that 60% of Canadians buy into without fear. Often it is done with excitement and elation. This debt usually has a term of 5 to 7 years after which you own the asset. And in most cases the asset is worth 40% to 60% less by the time it is paid off. If you haven’t guessed yet, I’m talking about cars. Yes, I understand that most of us need vehicles to get to work and help us live our lives. They are a lifestyle utility, but they are also an expensive and somewhat “dumb” form of debt. This got me thinking about something: what if instead of financing a car for 5 to 7 years, a person bought the car up front with money from their own investment portfolio, and then replaced that money with an investment loan?

My hypothesis is as follows:

· This would free up significant cash flow

· There would be less owed on income taxes

· It would build wealth faster

At KPW Financial, we use a robust state of the art financial planning software to build Life Plans. Today, I’m going to use it to test our hypothesis.

Here’s what I’m going to do: We’re going to buy a car for $50,000. We have $100,000 sitting in a non-registered investment account. We’ll assume no other expenses other than debt payments on the vehicle and the investment loan. Our test subject will earn $100,000 per year. Again, all expenses will go to either taxes, lifestyle, or debt payments.

In scenario one, we’ll finance the car for 5 years at 3%. We won’t touch our investment portfolio and that portfolio will grow at 7% annually.

In scenario two, we’re going to buy the car using $50,000 from our investment portfolio. We are then going to take a 1 for 1 loan in which we’ll borrow $50,000 to put back into the portfolio. The interest payment on the loan is 5.4%. The portfolio will grow at 7% annually.

Disclaimer

So, what happens to cash flow?

In scenario one, our car payments are $873/month for 60 months (5 years). However, in scenario two our interest payment on a $50,000 loan is $225/month. We do not pay down the principle of the investment loan, we only pay the interest. In a real-world scenario we would carry this loan for as long as possible, or at least until we approach retirement years. Bottom line: we've freed up $648/month of cash flow by going with the leverage scenario.

	Scenario One (Car Finance)	Scenario Two (Investment Loan)
Investment Portfolio Value Year One	$100,000	$100,000
Cash flow expense	$10,781/year	$2,700/year
Extra cash flow for lifestyle	$0	$8,081

So, what happens to income taxes?

Truth is, I don't need fancy software to tell you that scenario two will have a lower income tax owing. This is because interest paid on investment loans is tax deductible. For example, in scenario one, income taxes are $20,536; alternatively, in scenario two taxes are $19,735. The leverage scenario provides total tax savings of $801 in year one. Combined with the savings from the lower monthly debt obligation, scenario two adds a total amount of $9,096 of extra spending money in the year. In other words, lifestyle expenses can increase by $9,096.

	Scenario One (Car Finance)	Scenario Two (Investment Loan)
Investment Portfolio Value Year One	$100,000	$100,000
Cash flow expense	$10,781/year	$2,700/year
Total taxes	$20,536	$19,521
Extra cash flow for lifestyle	$0	$9,096

So, would it build wealth faster?

If we are spending our surplus cash on lifestyle than scenario one would leave us with more money. This is because, at some point, we still must pay back $50,000 to the lender. For that reason, scenario one still builds faster wealth. All things being equal, you would have $50,000 more with scenario one. However, if we were to take the extra savings from scenario two and invest that amount into a TFSA for the next 5 years, things would be much different. I've chosen five years because that is the length of time we would need to pay down the car loan in scenario one.

The result is that in the year that the car loan is paid off, you would have $52,613 more in the leverage scenario two. In other words, you could pay back the $50,000 and still have more money.

	Scenario One (Car Finance)	Scenario Two (Investment Loan)
Investment Portfolio Value Year One	$100,000	$100,000
Cash flow expense	$10,781/year	$2,700/year
Total taxes	$20,536	$19,521
Extra cash flow for TFSA contributions	$0	$9,096
TOTAL INVESTMENTS Year Five	131,080	$183,693

Our hypothesis about the investment loan was correct: it would free up more cash flow, it would reduce taxes, and it would result in having more money even after paying back our loan (and if we invest our surplus).

Leverage is an inherently risky investment strategy, and it needs to be done with attention, care, and with the right person. It really is not for everyone. However, there are certain situations where leverage is beneficial. Always speak with a professional.

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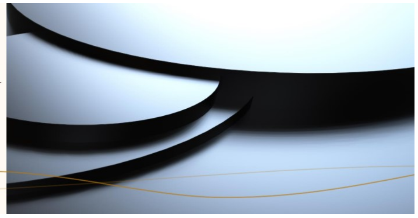
Wealth and Wisdom

Behavioral Finance

By Kristina De Souza, CFP, CFDS, RIS



When Gifts Become Grievances

The season of generosity is in full swing, and what better time to discuss the implications of giving. Giving comes in many shapes and sizes, but the type of giving up for discussion today is not necessarily the kind that goes on during the holiday season.

Despite the best intentions, giving does not always have the best outcome for all parties involved. We all know the definition of giving, but to make certain points we will look at various examples within families.

Consider for one, when an aging parent gives one of their adult children a significant amount of money prior to passing away. Sometimes even the best of intentions can have implications that last for years to come. Perhaps children who were left out insist the money be repaid to the parent's estate after the parent dies, while the child receiving the funds insists it was a gift. Then there are considerations when it comes to jointly held property with right of survivorship.

There are many reasons, including avoiding probate, a parent may hold property, such as a principal residence or bank account, jointly with their child. After the parent passes away, the issue of ownership could arise. The surviving child and joint owner may claim the property is now theirs; however, other children in the family might not agree, especially if a will provides for equal distribution of the parent's other assets. In 2007, The Supreme Court of Canada (case Pecore vs. Pecore) confirmed that a cost-free transfer of an asset or property into joint ownership from a parent to their adult child is presumed to be held by the child in what is called a 'resulting trust'. When the parent passes away, the asset must be given back to the parent's estate, unless the child can provide evidence the parent intended to gift the asset to them at the time of transfer. This issue: the determination of ownership of assets in these situations, continues to be litigated in families repeatedly.

Over time, real life court cases have helped pave the way for what happens when items are "given" away. One such case established that banking documents for joint accounts are deemed insufficient as evidence of intent. The 2023 Ontario case involved a mother who, for many years prior to passing away, held several bank accounts jointly with one of her two daughters. The daughter claimed the mother intended that she receive the proceeds of the accounts, and as the surviving account holder, the accounts should belong to her. The other daughter's position was that the accounts were assets of the mother's estate. The main evidence put forward to establish that the mother intended to gift the accounts was the signature cards created when the accounts were set up, showing that the mother had checked off a survivorship option. However, the court decided that more than a signature card is required, and indicated that checking off a box, or other language in banking documents explaining survivorship, was insufficient evidence to establish that the individual creating the joint account truly intended to gift the account to the joint account holder. The court determined there was little evidence of the mother's true intentions regarding the accounts, and that all the joint accounts were estate assets and should be treated as such.

Back in 2018 in B.C., courts found that actions establishing joint ownership of property helped support intent. The case involved a father who died, leaving four surviving adult children. His will provided that his estate was to be divided equally among them. However, a decade prior to his death the father added his son as a

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joint owner of his condominium. The son testified his parents promised he would receive their condo and other ac-counts when they died, in exchange for him moving back to Canada from China to care for them. However, his siblings disagreed and claimed he was holding the as-sets in a resulting trust for their father's estate. The court noted that on the day the parents signed wills, they also signed a property transfer document that added the son as a joint owner of the condo. The court determined that the property transfer document, in itself, is consistent with a specific intention that the property be dealt with outside the will. The court also reviewed an affidavit by the lawyer who drafted the parents' wills and found it was likely the lawyer explained the nature and effect of joint tenancy to them, including that the condo would become the son's sole property after their deaths. The court determined the parents signed the property transfer document knowing it would give the son full ownership of the condo upon their deaths and with the intention of gifting it to him.

The last example describes a case in Ontario from this year, whereby a father with cancer gave his son several cash amounts over about 20 months. The father passed away several years ago, but prior to this the son received a cheque for $98,000 and $500,000 from an investment account, and 89 separate e-transfers from the father's bank account totaling $178,000. The daughter in the family claimed the funds received by her brother were void and subject to a resulting trust. The brother's position was that the father intended to gift the funds to him and that there was evidence to corroborate this. The primary issue the court considered was whether the father had the intention to gift the cash amounts to the son. The court found that only the $500,000 was a valid gift. It reviewed a gift letter signed by the father, as well as testimony from the father's investment advisor that on the day of the transfer, the father was "quite intent" on transferring the funds and provided direct and clear instructions to the advisor. The court noted that the brother's testimony was often the only direct evidence provided of the father's intentions. It determined that the evidence he provided to corroborate his claim of a gift for the other cash amounts was either not credible or insufficient.

These real-life examples offer several takeaways when it comes to giving, providing insight into considerations to be made when giving takes place. For one, it is crucial to clearly document the intention to gift a specific asset/ownership interest to a specific child. Also, you want to communicate with all children who are beneficiaries, not just the one receiving the asset, about the intention to make a gift. It is also ideal to communicate wishes to your trusted financial and estate professionals the intention to make a gift and request associated documentation. By doing so, the likelihood of conflict and resulting court action can be significantly reduced for families.

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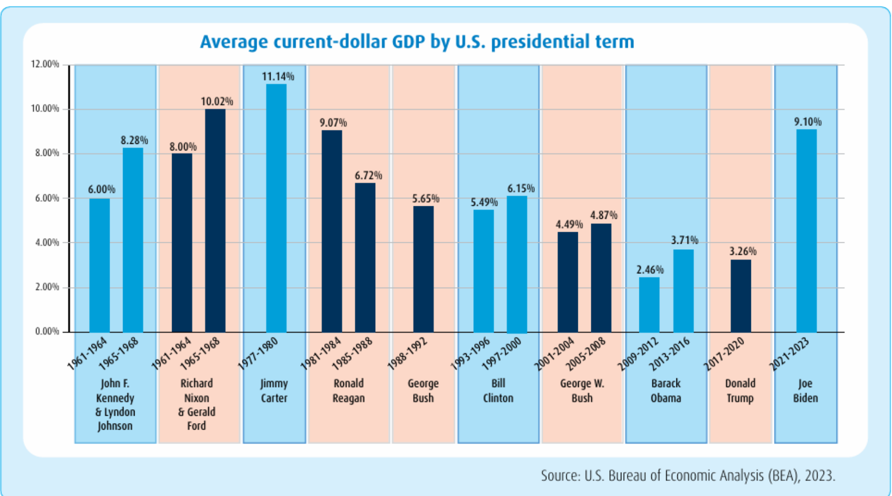
PROTECTING YOUR LIFESTYLE BY KPW

President-elect Donald Trump is inheriting the top economy in the world—and one that could well see additional interest rate cuts to come, providing a potentially powerful combination for U.S. equities.

History as guide

A quick glance at how the U.S. economy has historically performed under Democratic versus Republican presidents reveals no major advantage held by either party. Below is a chart highlighting the average current-dollar Gross Domestic Product (GDP) in the U.S. over the past 16 presidential terms, dating back to 1961 when John F. Kennedy took office



What is certain is that investors are currently enjoying a U.S. economic backdrop of resilient employment, economic expansion and still-favourable inflation dynamics. As we head into the final stretch of 2024, we believe several underlying themes will shape markets in the months ahead. Here are five to keep an eye on:

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Theme	Underlying trend	Allocation
Mid- and Small-Caps		
Tariffs may support domestic firms, as could lower policy interest rates	Potential tailwind from reduced competition, lower debt servicing costs	BMO U.S. Small Cap Fund BMO U.S. All Cap Equity Fund
Quality Factor		
Strong U.S. companies may gain from accelerating economy, rate cuts	Quality factor could shine via combination of strong fundementals and possible Fed rate reductions	BMO Global Quality Index ETF Fund* *Fund holds 70% weighting to U.S. companies
Dividend-oriented strategies		
Rate normalization to continue	Policy rates should ease—albeit perhaps more gradually—benefitting dividend stocks	BMO U.S. Dividend Fund BMO U.S. Dividend ETF
Buffers and hybrids		
Ballast for transitionary volatility	Market gyrations may occur during transition of power, Trump policy uncertainty	BMO Strategic Equity Yield Fund
Gold		
Hedge against rising deficit spending	Trump tax cuts will add to soaring U.S. deficits, presenting longer-term market risks	BMO Gold Bullion ETF BMO Precious Metals Fund

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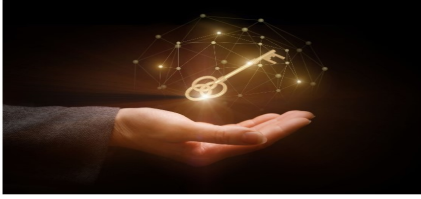


CREATING A LEGACY OF FINANCIAL AFFLUENCE

BILLIONAIRES HAVE BEEN BEATING THE STOCK MARKET—WHERE THEY ARE PUTTING THEIR MONEY NOW, ACCORDING TO UBS

Wealthy individuals want assets that protect from ‘market storms’ in 2025

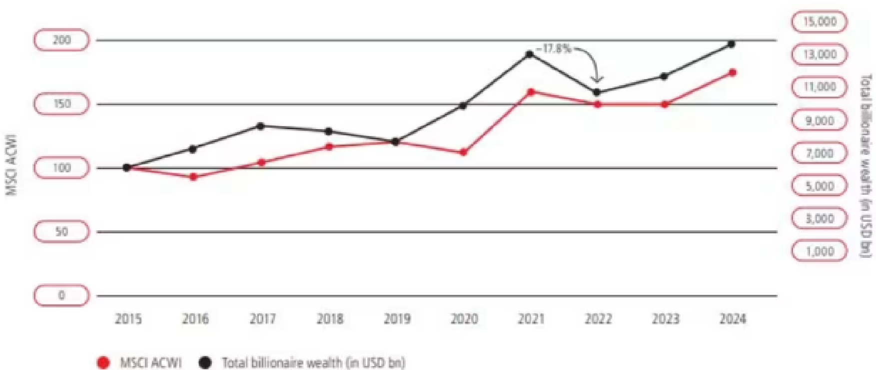
By Barbara Kollmeyer

New York Stock Exchange in Manhattan, circa Oct. 2015. UBS said in a new report that billionaires have been making more money than the global stock market by at least one measure.Photo: Getty Images

While global stock markets have been on a pretty good run over the past decade, the billionaires have apparently got them beat.

That’s according to the 10th annual “Billionaire Ambitions Report” for 2024, recently published by UBS. At the top of that report was data showing that between 2015 and 2024, total billionaire wealth rose by 121% globally, from $6.3 trillion to $14 trillion. The bank compared that to the MSCI AC World Index, which posted a 73% gain in the same time frame. The S&P 500 incidentally, has gained about 77% in the same period.

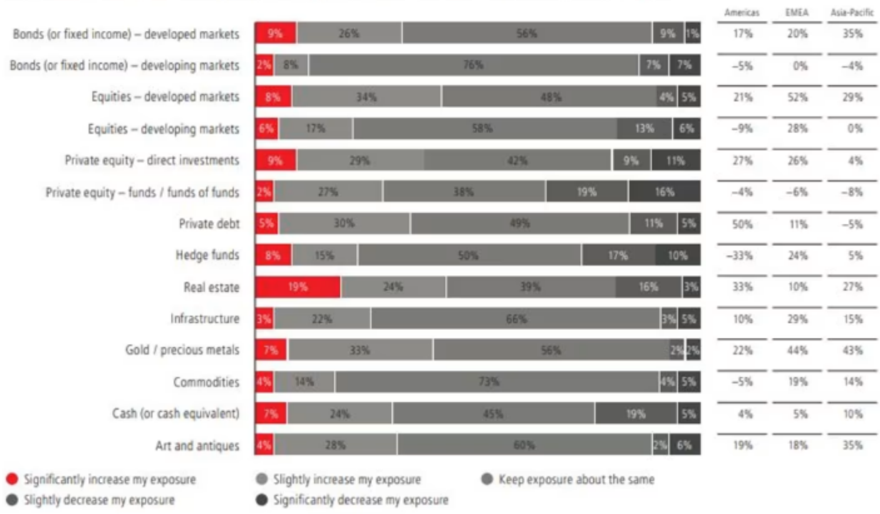
Here’s their chart:



As for how those billionaires plan to hang onto that wealth, the UBS research finds those asset-class views shifting as U.S. and eurozone central banks lower interest rates.

Over the next year, 43% of billionaires said they would boost exposure to real estate and 42% to developed market equities. But they're also looking to increase investments in "perceived havens from market storms," with 40% signaling intentions to boost gold and precious metals exposure, and 31% cash levels.

Wealthy individuals remain keen on alternative investments, with 38% planning to boost direct private equity holdings, though 28% plan to raise private-equity funds/funds of funds holdings and 34% want to decrease them. Some 26% plan to boost infrastructure investments, and 35% private debt. But 27% of billionaires surveyed citing plans to decrease hedge-fund investments against 23% wanting to increase that segment.



Also nearly a third, or 32%, want to invest more in art and antiques, a notable boost from 11% last year.

Many billionaires see the best opportunities in North America, with 80% preferring that region over the next 12 months, and 68% over the next five years, as they cite technological innovations as well as energy security amid global instability. Just 11% see more opportunity in China.

North American billionaire wealth, incidentally jumped 52.7% to $3.8 trillion between 2015 and 2020, and another 58.5% between 2020 and 2024, led by industrials and tech billionaires, to $6.1 trillion, UBS said. The region also hosts the greatest percentage of the top 100 billionaires — 43%, versus 21% in Western Europe, 15% in Southeast Asia and 8% in China.

Tech billionaires wealth across the globe, not surprisingly, saw their wealth grow the fastest of any sector, from $788.9 billion in 2015 to $2.4 trillion in 2024, UBS said.

The overall number of billionaires grew from 1,757 to 2,682 between 2015 and 2024, with the peak hit in 2021 with 2,686 billionaires, but since that time growth has remained flat.

Finally, UBS notes that over 10 years, multigenerational billionaires have inherited a total of $1.3 trillion. "Naturally, this amount understates the total inheritance as many heirs have not themselves become billionaires," they said.

"Looking forward, we calculate that billionaires aged 70 or more will transfer $6.3 trillion over the next 15 years, mainly to families but also chosen causes," and that's well over 2023's estimate of $5.2 trillion over 20 – 30 years, due to asset price inflation and billionaires aging, the report said.

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BEHAVIORAL FINANCE BY KPW

By Sergio Simone

In today's volatile economic landscape, C-Suite leaders face unprecedented challenges in steering their organizations towards financial stability and growth. The uncertainty brought about by global events, market fluctuations, and technological disruptions requires a strategic approach to financial management. This article delves into essential financial strategies that can help executives navigate these turbulent times, ensuring their companies remain resilient and competitive.

Effective risk management and astute investment strategies are paramount in this endeavor. By identifying potential risks and diversifying investments, executives can mitigate financial threats and capitalize on emerging opportunities. This article explores essential risk management practices and innovative investment approaches that can help C-Suite leaders steer their companies through turbulent times with confidence and resilience.

Risk Management: Safeguarding Financial Stability in Uncertain times

In an unpredictable economic environment, effective risk management is crucial for C-Suite leaders to ensure the financial stability and resilience of their organizations. By identifying potential risks and implementing strategies to mitigate them, executives can protect their companies from unforeseen challenges and maintain a steady course towards growth. Conducting thorough risk assessments to identify potential financial threats, such as market volatility, interest rate fluctuations, and credit risks, is essential. Utilizing data analytics and forecasting tools can help anticipate and prepare for economic downturns and other adverse events.

Diversifying investments across different asset classes, industries, and geographical regions reduces exposure to any single risk. Considering alternative investments, such as real estate, private equity, and commodities, can further diversify the portfolio and enhance returns. Developing comprehensive contingency plans to address potential financial crises, including liquidity shortages and sudden market downturns, is another key aspect of risk management. Establishing emergency funds and credit lines ensures access to capital during challenging times.

Enhancing operational efficiency by streamlining operations and reducing costs improves the organization's overall financial health and resilience. Investing in technology and automation increases efficiency and reduces the risk of human error.

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Maintaining strong governance and compliance ensures that the organization adheres to regulatory requirements and industry standards, avoiding legal and financial penalties. Implementing strong internal controls and audit processes helps detect and prevent fraud and other financial irregularities.

By focusing on these key aspects of risk management, C-Suite leaders can safeguard their organizations against financial instability and position them for long-term success. In the next section, we will explore innovative investment strategies that can help executives navigate uncertain times and capitalize on emerging opportunities.

Investment Strategies: Navigating Uncertainty With Confidence

In times of economic uncertainty, adopting innovative investment strategies is essential for C-Suite leaders to ensure their organizations' financial growth and stability. By carefully selecting and managing investments, executives can mitigate risks and capitalize on emerging opportunities. Here are some key investment strategies to consider:

First, diversification remains a cornerstone of sound investment strategy. I know I am repeating myself, but DIVERSIFICATION is a critical component of successful investing. By spreading investments across various asset classes, industries, and geographical regions, organizations can reduce their exposure to any single risk. This approach not only helps in managing volatility but also enhances the potential for returns. For instance, combining traditional investments like stocks and bonds with alternative assets such as real estate, private equity, and commodities can create a more resilient portfolio.

Second, focusing on long-term growth is crucial. While short-term market fluctuations can be unsettling, maintaining a long-term perspective allows organizations to ride out temporary downturns and benefit from the overall upward trend of the market. Investing in high-quality, growth-oriented companies with strong fundamentals can provide sustained returns over time.

Third, staying informed about market trends and economic indicators is vital. By keeping a close eye on global economic developments, interest rate changes, and industry-specific trends, C-Suite leaders can make informed investment decisions. Leveraging data analytics and financial forecasting tools can provide valuable insights and help in identifying lucrative investment opportunities.

Fourth, considering environmental, social, and governance (ESG) factors in investment decisions is becoming increasingly important. ESG investing not only aligns with ethical and sustainable business practices but also has been shown to deliver competitive financial returns. By integrating ESG criteria into their investment strategies, organizations can attract socially conscious investors and enhance their reputation.

Lastly, maintaining liquidity is essential for navigating uncertain times. Ensuring that a portion of the investment portfolio is easily accessible allows organizations to respond quickly to unexpected opportunities or challenges. This can be achieved by holding cash reserves or investing in highly liquid assets.

By implementing these investment strategies, C-Suite leaders can navigate economic uncertainty with confidence, ensuring their organizations remain resilient and poised for growth. Combining effective risk management with innovative investment approaches will enable executives to steer their companies through turbulent times and capitalize on emerging opportunities.

Steering Through Uncertainty with Strategic Insight

In today's unpredictable economic landscape, C-Suite leaders must adopt a proactive and strategic approach to financial management. By focusing on robust risk management practices and innovative investment strategies, executives can safeguard their organizations against potential threats and capitalize on emerging opportunities. Effective risk management involves identifying and mitigating financial risks, diversifying investments, and maintaining strong governance and compliance. Meanwhile, strategic investment decisions, informed by market trends and economic indicators, can drive long-term growth and resilience.

By combining these approaches, C-Suite leaders can navigate uncertain times with confidence, ensuring their organizations remain resilient and poised for success. Embracing these financial strategies will not only protect the company's assets but also position it to thrive in a dynamic and ever-changing business environment.

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Manulife Investment Management

2025 MARKET OUTLOOK: NAVIGATING BULL-, BEAR-, AND BASE-CASE SCENARIOS

Macan Nia, CFA,
Co-Chief Investment Strategist
Manulife Investment Management

Kevin Headland, CIM,
Co-Chief Investment Strategist
Manulife Investment Management

Will 2025 stir animal spirits and energize the market bull, or will the bears emerge from hibernation and stomp on investor returns? We present three possible scenarios.

Seeking clarity amid uncertainty

The global economic and investment landscape is influenced by many different factors, including, but not limited to, geopolitical events, monetary policy, and market expectations. To help investors navigate this environment, we decided to examine three potential scenarios—a bull, a bear, and a base case—and assign our best estimate of the probability of each scenario playing out.

Our goal is simple: to help investors better understand the investment backdrop that we could find ourselves in over the coming 12 months and enable them to build the best portfolio that can help bring them closer to their objectives.

1. The bear-case scenario

In our view, we're unlikely to enter a bear market in 2025, which is why we've only assigned a 15% probability to it playing out in the year ahead.

Scenario assumptions

In such a scenario, we can expect global equities to experience significant declines as the combination of economic, political, and financial factors creates widespread uncertainty, ultimately reducing corporate profitability.

Source: Macrobond, Manulife Investment Management, as of November 15, 2024. The grey areas represent recessions.

Similarly, the global economic landscape will likely deteriorate with both manufacturing and services Purchasing Managers' Indexes (PMIs) falling into contractionary territory (below the 50-point reading). Stagflation—a period of slow growth and high unemployment rate accompanied by inflation—may also become entrenched in major economies around the world, and the likelihood of a global economic recession could rise.

The likelihood of a bear-case scenario playing out will also depend on whether we see a retreat from open trade. Should the world's top trading nations adopt a broad-based approach to tariffs, inflation could become more of a problem than the sticky variety that policymakers have had to deal with in the past year.

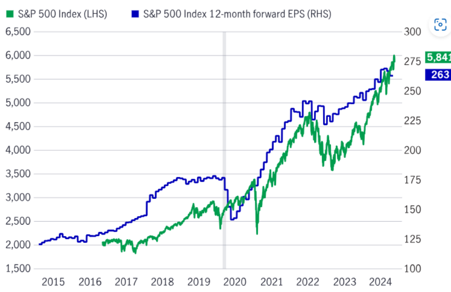
Disclaimer

Central banks could also find themselves in a situation in which they may be forced to hit pause on monetary easing and instead make an about-face and return to hiking rates. This scenario envisions a confluence of adverse conditions that collectively undermine economic growth, corporate profitability, and market confidence.

Investment implications

In our view, investors should look to apply strategies that can potentially protect capital and manage risks if the bear-case scenario plays out. This may include increasing portfolio allocations to high-quality fixed-income securities such as U.S. Treasuries. Within equities, it may make sense to prioritize investments in high-quality companies with strong balance sheets, stable cash flows, and a history of consistent performance.

S&P 500 Index vs. 12-month forward estimated EPS



Source: Macrobond, Manulife Investment Management, as of November 15, 2024. LHS refers to left-hand side. RHS refers to right-hand side. EPS refers to earnings per share. The grey area represents a recession.

Investors may also want to consider alternative investments such as real assets in such a scenario as they typically exhibit lower correlations with publicly traded securities. It's our belief that active management can play a critical role in navigating risks and capitalizing on opportunities as dislocations emerge. In a bear-case scenario, we expect the CAD/USD to trade within the $0.67 to $0.70 range.

We've long spoken about the importance of staying invested during the market's best and worst days. Our view remains unchanged: Maintaining a long-term perspective is key to successfully managing investments during bear markets.

2. The bull-case scenario

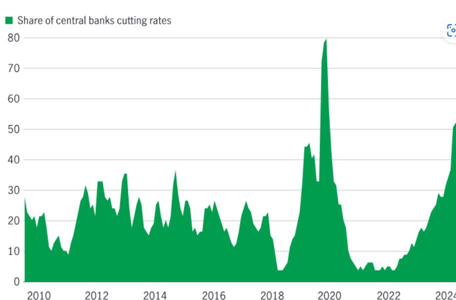
We've assigned a 30% probability to the bull-case scenario playing out in 2025.

Scenario assumptions

In our bull-case scenario, the global economic landscape would enjoy above-trend growth, boosted by a combination of strong consumer activity in the United States and meaningful growth in China, spurred by stimulus measures introduced in 2024. For markets to be able to take off meaningfully, this resurgence in economic activity would need to be supported by declining inflation rates, a development that would enable global central banks to continue lowering interest rates.

Should such a scenario play out, easing global financial conditions and positive monetary policy impulses are likely to become tailwinds for growth. It's also worth noting that changes in global central banks' policy rates often lead manufacturing activities. Given that over 50% of the world's central banks that we follow are cutting rates as of this writing, we're likely to see a resurgence in global manufacturing activities if policy direction doesn't change.

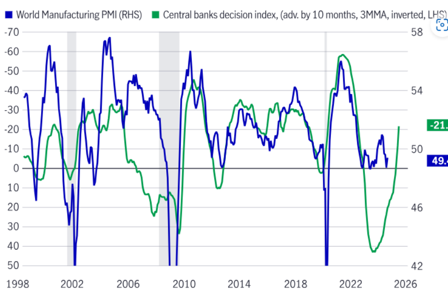
More central banks are cutting rates (%)



Source: National central banks, Macrobond, Manulife Investment Management, as of November 15, 2024.

In our bull case, U.S. policymakers—notwithstanding the ever-present challenges of bureaucratic intransigence and the need for congressional approval—would pursue pro-cyclical policies such as individual and corporate tax cuts as well as deregulation measures that would be supportive of small businesses. We also assume that parts of the Tax Cuts and Jobs Act of 2017 would be successfully renewed and a series of tax breaks—including eliminating federal tax on tips, overtime pay, and Social Security benefits—would be introduced, providing support for the U.S. consumer; meanwhile, corporate tax rates would fall to 15% from 21%. In this scenario, which depends heavily on a cooperative Congress, we've assumed that the incoming administration would ultimately pursue a targeted approach to imposing tariffs.

In the case of China, the team's assumption here is that the Chinese government would implement a combination of fiscal and monetary stimulus aimed at revitalizing the Chinese economy and reversing deflationary pressures. In this instance, it means that the People's Bank of China would lower its key policy rate by a third and reduce mortgage rates to support the Chinese consumer.



Source: S&P Global, Macrobond, Manulife Investment Management, as of November 15, 2024. LHS refers to left-hand side. RHS refers to right-hand side. MMA refers to modified moving average. The grey areas represent recessions.

In this scenario, the team assumes that upcoming fiscal stimulus measures would be financed by issuing sovereign bonds and measures aimed at providing financial support for low-income households would be introduced. Our bull-case scenario also assumes that policymakers would announce plans to inject capital into China's largest state banks with the goal of increasing loan issuance.

It's worth noting that such a scenario would be reminiscent of what we saw in 2015/2016, a period marked by accommodative U.S. Federal Reserve (Fed) policy and aggressive Chinese stimulus.

Investment implications

In a bullish scenario, investors can expect to benefit from strategies that are focused on alpha generation. On a practical level, this may include increasing allocations to equities, prioritizing investments that typically do well when markets slip into risk-on mode, such as growth companies (think the Nasdaq Index), small- and mid-cap firms, cyclical firms (including those listed in the S&P/TSX Index), and select emerging markets. Cyclical commodities such as oil and base metals typically do well in such a scenario too.

Within fixed income, we believe an overweight in credit relative to government bonds would make sense in a bull-case scenario, and high-yield bonds are likely to outperform their higher-quality peers as well. Finally, in this instance, we expect the CAD/USD to trade within the $0.74 to $0.78 range.

3. Our base-case scenario

All things considered, we believe this is the most likely scenario that will play out in 2025. We've assigned a 55% chance of this taking place.

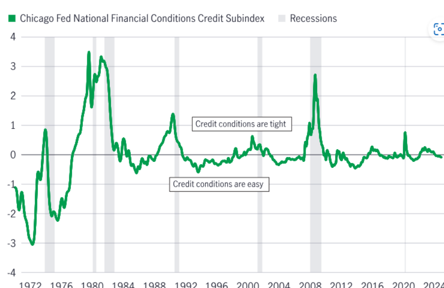
Scenario assumptions

In our base-case scenario, the global economic landscape would experience below-trend growth, weighed down by tapped-out consumers who are feeling the burden of still-high borrowing costs—despite rate cuts—and, over in China, stimulus measures that turn out to be only marginally effective at reigniting the economy. In this scenario, inflationary pressure will continue to ease, enabling global central banks to continue to lower interest rates in an orderly fashion.

More than likely, key economies that contribute to shaping the global growth (such as the U.S., China, India, and the eurozone) will experience anemic growth in 2025. We expect the Canadian economy to face significant headwinds in such an environment, in light of how sensitive Canadian consumers are to interest rates, which remains elevated despite recent rate cuts. While the balance of risks remains to the downside, we don't expect the global economy to experience a material recession.

In the United States, financial conditions—as illustrated by the Chicago Fed National Financial Conditions Credit Subindex—remains neither too tight (which could signal a pending material economic slowdown) nor too easy (which could point to rising inflation). In other words, we're likely to find ourselves in a Goldilocks environment in terms of financial conditions.

In our base case, the incoming U.S. administration's campaign pledges relating to undocumented migrants and tariffs wouldn't be as broad based as anticipated.



Source: Federal Reserve Bank of Chicago, Macrobond, Manulife Investment Management, as of November 15, 2024. The grey areas refer to recessions.

We've also taken the view that the Trump administration will adopt a targeted and pragmatic approach to tariffs and seek to negotiate trade agreements with key partners. On the other hand, we believe that the corporate tax policies discussed during the presidential election campaign would be implemented in a more broad-based fashion, again on the provision that Congress is willing to cooperate.

In terms of monetary policy, we believe the Fed will keep lowering rates as inflationary pressure continues to ease. That said, we expect policy uncertainty to remain pronounced as the U.S. central bank adopts a data-dependent approach to its future rate decisions. Should this happen, it would mean that monthly economic indicators such as employment rates and consumer spending would take on even more significance than they already do.

In contrast, we expect the Bank of Canada to keep cutting rates to stimulate economic activity amid concerns about sluggish growth. Being highly integrated with global markets, Canada is—in this scenario—susceptible to disruptions caused by trade policies and/or international conflicts.

Despite these challenges, our base-case expectation is that the U.S. stock market will remain resilient and post positive returns in 2025.

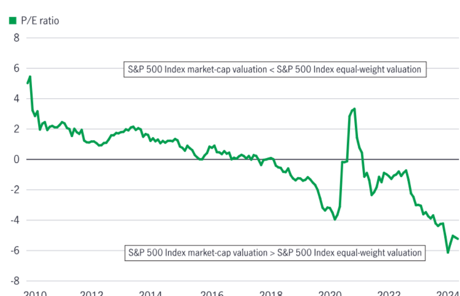
Throughout much of 2023, the S&P 500 Index's performance was primarily driven by mega-cap technology names. This changed in 2024 when the rally broadened, with 493 of the index's component companies contributing to roughly half of its total in the year.1 That said, the valuation of the S&P 500 Index remains expensive from a market-cap-weighted perspective relative to its equal-weighted peers.

In our view, the broader U.S. stock market—specifically, firms besides the mega-cap technology giants—will benefit from the incoming Trump administration's focus on the domestic economy. Their relatively cheaper valuation could become an important driver for the S&P 500 Index in 2025.

That said, we expect the index's return profile to be uneven in the year ahead, with sectors that are less rate sensitive and less affected by external economic conditions outperforming their peers. Investors may need to navigate these fluctuations carefully and focus on firms that can weather economic storms.

Assessing relative valuation

S&P 500 Index's market-cap-weight P/E vs. equal-weight P/E



Source: Macrobond, Manulife Investment Management, as of November 15, 2024. P/E refers to price-to-earnings ratio.

Given that we're moving into the later stages of the economic cycle, it may make sense for investors to focus on firms that have traditionally done well during this period. Factors to keep in mind include high profitability measures, recurring cash flow, and pricing power.

Investment implications

Should our base-case expectation play out, it would make sense for investors to adopt strategies that strike a good balance between risk factors and potential returns. In our view, it would be preferable to adopt a balanced approach to portfolio management. Once again, active management can play a critical role in navigating risks and capitalizing on opportunities.

Within equities, we believe it would make sense to prioritize investments that are higher quality in nature while emphasizing diversification. Unsurprisingly, security selection would be critical in this kind of environment, and a broader index approach to investing may not be as preferable. Against such a backdrop, an allocation to global equities and U.S. mid-cap companies may make sense.

Within fixed income, flexibility will remain paramount as we may come to experience what's arguably a period of extreme volatility within the sector. In our view, this wouldn't be an ideal time to take on too much risk in fixed income. Finally, we expect that cyclical commodities would be likely to trade in a tight range, and the CAD/USD should trade within the $0.70 to $0.74 range.

A flexible approach to investing.

The way we see it, understanding the range of possible economic and investment scenarios will be essential for navigating the complexities of global markets in 2025. By considering multiple potential outcomes, investors can better position themselves to protect capital, seize opportunities, and achieve their long-term financial goals. Although we're confident that our base-case scenario will play out, we're aware that we need to be ready to shift our views should the landscape begin to move in another direction.

1 Bloomberg, as of November 21, 2024.

Some insurers sell joint life policies with the option to exchange such a policy for two single life policies, and policyholders should understand whether their contract includes that option, Baar said. Also, conversion to a current-dated policy could have tax implications.

“People don’t realize that they’re actually disposing of one and buying another one,” Baar said.

Beneficiary considerations could also be part of a prenup. For example, a couple could agree that at separation, one spouse gets the primary residence or liquid assets, while the other becomes an irrevocable beneficiary of a life insurance policy, Wormeli said. However, this arrangement may work only if the life insured has a short life expectancy.

Even when a prenup states that one person in the couple will become the beneficiary of a policy, the couple should make sure that the beneficiary designation is updated with the insurer, Baar said.

Also, if a policy will be transferred from one person to the other upon separation, the policyholder should ensure the policy can be transferred and is not assigned to a bank for a loan, Baar said.

AFTER BITCOIN HITS $100,000, WHERE DOES CRYPTO GO NEXT

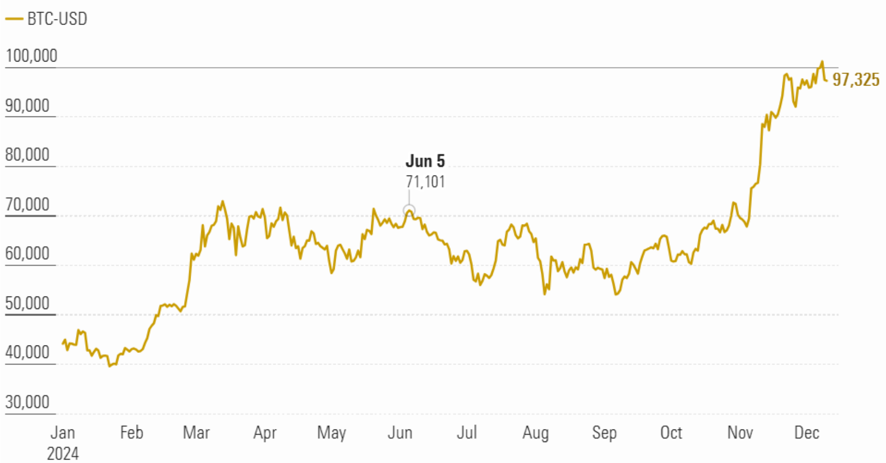
Trump nomination of crypto advocate as SEC chair helps push bitcoin to new record.

By: Valerio Baselli

The value of one bitcoin has exceeded $100,000 for the first time, boosted by the nomination of cryptocurrency advocate Paul Atkins to chair the Securities and Exchange Commission by president-elect Donald Trump.

The crypto community believes that the appointment of Atkins will mark a major shift in how the US approaches regulation, moving away from the enforcement action under chair Gary Gensler.

Since the US post-election rally began, there has been an expectation that bitcoin would cross this threshold, particularly as the price has more than doubled in 2024. For some, this price move could spark more buying interest in an already feverish market.



"From a technical point of view, the $100,000 level represents an important and symbolic resistance, the breach of which could attract new capital, especially due to renewed confidence among long-term investors," says Stefano Bargiacchi, analyst at Directa SIM.

Bitcoin is in a Price Discovery Stage

This move above $100,000 could also be a technical "sell" signal for some.

"This milestone also represents an important psychological level because it is a relevant profit-taking threshold for those who invested five or 10 years ago," says Ferdinando Ametrano, managing director of CheckSig and a professor of Bitcoin and Blockchain Technology at Milan-Bicocca University.

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But he adds that market sentiment is likely to remain buoyant: "Bitcoin is in a phase of price discovery above previous all-time highs, uncharted territory that attracts attention and speculation".

Stefano Bargiacchi agrees, saying the $100,000 milestone could give long-term investors the confidence to hold on for further gains.

"Rather than an immediate correction, crossing the key level could trigger a new uptrend phase, with the price driven by optimism and price discovery dynamics."

Spot Bitcoin ETFs: A Turning Point

The ground for 2024's bitcoin boom was laid before the election when in January the SEC approved the sale of exchange-traded funds (ETFs) linked to the spot price of Bitcoin in the US.

Before this the FTX collapse in 2022 seemed to have strengthened the case for tighter crypto regulation. In November 2023 FTX founder Sam Bankman-Fried was found guilty of fraud and conspiracy, and was sentenced to 25 years in jail in March 2024.

John Plassard, senior investment specialist at Mirabaud Group, says that since the SEC's decision, institutional investors are increasingly embracing bitcoin, aided by investment products like ETFs.

"The entry of major asset managers such as BlackRock and Fidelity has further legitimized bitcoin as a portfolio asset. Moving forward, institutions are likely to deepen their involvement as regulatory clarity improves, viewing bitcoin as a hedge against inflation and economic uncertainty. However, risk management will remain a priority, given the historical volatility."

Crypto Investors Should Prepare for Volatility

Cryptocurrencies are known for their high volatility. Prices can fluctuate significantly in short periods, induced by factors such as market sentiment, regulatory news, technological developments, and macroeconomic trends.

"Investors should approach bitcoin investing with the understanding that volatility is an inherent characteristic. This means being prepared for potentially substantial price corrections and declines in value, regardless of current conditions," says Dovile Silenskyte, director of digital assets research at WisdomTree.

"Investors must also recognize that volatility can work both ways. While it presents the possibility of substantial upside gains, it also carries the risk of significant losses".

So how should investors interested in bitcoin or other cryptocurrencies behave? "The first piece of advice is to clearly define the time horizon and understand how cryptocurrencies work, as well as the risks associated with them," says Directa SIM's Bargiacchi.

"A systematic approach, such as that based on accumulation [eg. monthly payment] plans, can help mitigate volatility, avoiding the often-unsuccessful attempt to time the market."

It is also essential to invest only a portion of the capital you are willing to lose, he says, without using funds earmarked for current expenses or emergencies.

BANK OF CANADA
BANQUE DU CANADA

BANK OF CANADA REDUCES POLICY RATE BY 50 BASIS POINTS TO 3.25%

The Bank of Canada today reduced its target for the overnight rate to 3¼%, with the Bank Rate at 3½% and the deposit rate at 3¼%. The Bank is continuing its policy of balance sheet normalization.

The global economy is evolving largely as expected in the Bank's October Monetary Policy Report (MPR). In the United States, the economy continues to show broad-based strength, with robust consumption and a solid labour market. US inflation has been holding steady, with some price pressures persisting. In the euro area, recent indicators point to weaker growth. In China, recent policy actions combined with strong exports are supporting growth, but household spending remains subdued. Global financial conditions have eased and the Canadian dollar has depreciated in the face of broad-based strength in the US dollar.

In Canada, the economy grew by 1% in the third quarter, somewhat below the Bank's October projection, and the fourth quarter also looks weaker than projected. Third-quarter GDP growth was pulled down by business investment, inventories and exports. In contrast, consumer spending and housing activity both picked up, suggesting lower interest rates are beginning to boost household spending. Historical revisions to the National Accounts have increased the level of GDP over the past three years, largely reflecting higher investment and consumption. The unemployment rate rose to 6.8% in November as employment continued to grow more slowly than the labour force. Wage growth showed some signs of easing, but remains elevated relative to productivity.

A number of policy measures have been announced that will affect the outlook for near-term growth and inflation in Canada. Reductions in targeted immigration levels suggest GDP growth next year will be below the Bank's October forecast. The effects on inflation will likely be more muted, given that lower immigration dampens both demand and supply. Other federal and provincial policies—including a temporary suspension of the GST on some consumer products, one-time payments to individuals, and changes to mortgage rules—will affect the dynamics of demand and inflation. The Bank will look through effects that are temporary and focus on underlying trends to guide its policy decisions.

In addition, the possibility the incoming US administration will impose new tariffs on Canadian exports to the United States has increased uncertainty and clouded the economic outlook.

CPI inflation has been about 2% since the summer, and is expected to average close to the 2% target over the next couple of years. Since October, the upward pressure on inflation from shelter and the downward pressure from goods prices have both moderated as expected. Looking ahead, the GST holiday will temporarily lower inflation but that will be unwound once the GST break ends. Measures of core inflation will help us assess the trend in CPI inflation.

With inflation around 2%, the economy in excess supply, and recent indicators tilted towards softer growth than projected, Governing Council decided to reduce the policy rate by a further 50 basis points to support growth and keep inflation close to the middle of the 1-3% target range. Governing Council has reduced the policy rate substantially since June. Going forward, we will be evaluating the need for further reductions in the policy rate one decision at a time. Our decisions will be guided by incoming information and our assessment of the implications for the inflation outlook. The Bank is committed to maintaining price stability for Canadians by keeping inflation close to the 2% target.

Information note

The next scheduled date for announcing the overnight rate target is January 29, 2025. The Bank will publish its next full outlook for the economy and inflation, including risks to the projection, in the MPR at the same time.

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BMO GAM's monthly house view

Tying a bow on 2024: A year of convictions rewarded

December 2024

Fred Demers

Director, Multi-Asset Solutions

AMERICA FIRST, INDEED

Even as the U.S. decelerates, growth should remain above trend. The Canadian outlook is staid, all things considered. Elsewhere, the backdrop is markedly more uncertain.

U.S. OUTLOOK

We're gaining more certainty around a deceleration of economic growth toward 2.0% versus 3.0% for 2025—which isn't exactly bad if we are concerned about resurgent inflation and interest rates. We are still very much within a reasonable expansionary backdrop that is merely cooling, not crashing. We continue to see very firm indicators, particularly in the labour market, where job creation and payroll additions are sturdy but edging back to a 100–150,000 pace (even accounting for the forecast-topping November figure). Households too remain resilient on balance and consumer spending robust, aided by wealth effects from rising markets and wage inflation. On the downside, lower-income households are struggling, business spending is cooling while housing remains a drag on growth. We have an expectation for a pick up in "animal spirits"2 next year, as deregulation and tax-cut extensions stimulate the private sector. But there is limited upside given the already strong position the economy finds itself in.

CANADA OUTLOOK

Headline growth continues to plod along. We're not in recession, but definitively moving below trend. In some respects, that might be a positive as indebted households absorb the still-ongoing rate shock and attendant higher debt-servicing costs. We are likely past the peak, but perhaps just so—there remain more than one million mortgage holders facing higher resets in 2025. Those will bite. In terms of the labour market, we've experienced reasonable job creation but that has been mostly in the public sector. Businesses are struggling—corporate profits were, in fact, down in the latest quarter, which was the sixth consecutive of negative gross domestic product per capita. In addition, there is now the threat of Trump's tariffs overhead. Our view is, an across-the-board levy of 25% perhaps happens on Day 1, but we will likely see a deal by the spring. That said, the uncertainty is real.

INTERNATIONAL OUTLOOK

The International situation is increasingly messy, with economies roiled by political crises in South Korea, France and to a lesser extent Germany—at a time when growth is being revised lower across several key countries. Europe is the next biggest target for U.S. tariffs after Mexico and China. That uncertainty is just another layer of negativity for a region that has been hit by an ongoing energy crisis and competitive disruption in auto manufacturing from Chinese electric vehicles killing European competition. Even though things could improve in 2025, we are still looking at only modest increases to our growth outlook. Elsewhere, we see resumed stagnation out of Japan following its burst of exuberance in recent quarters. A potential silver lining: we may see early tariffs deals cut with the U.S. that are not too punitive, which could help reboot risk appetite.

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KEY RISKS	BMO GAM HOUSE VIEW
RECESSION	• Very low odds in the U.S. for the next six-to-12 months • Rate custs required in Canada; but should avoid recession
INFLATION	• Not a threat, though stickier than expected in the U.S. • Consumer price indexes are reaching targets, but new pressues may be rising
INTEREST RATES	• Fed calculus is perhaps shifting to fewer cuts amid stronger backdrop • The BoC still requires many cuts to alleviate pressure on
CONSUMER	• Job strength underpins strengthening U.S. consumer • Canadian consumer will remain bruised by mortgage resets through 2025
HOUSING	• Prevalence of elevated long-term U.S. mortgages means market stagnation until lower rates arrive • Canadian buying activity picking up as lower rate expectations spur demand
GEOPOLITICS	• President-elect Trump may in fact improve things (in his own way) • Stickiness remains, but wider conflict risk is momentarily
ENERGY	• Trump is seeking cheaper oil and gas prices for U.S. households • Lid on geopolitical risks (i.e., a potential deal with Russia)

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THE CASE FOR WAITING UNTIL AGE 70 TO TAKE CPP

You can get more CPP by delaying benefits until age 70. You can also supplement your benefits by holding ETFs like the iShares S&P/TSX Capped Composite Index Fund (TSX:XIC).

By Andrew Button

Source: Getty Images

Waiting until age 70 to take the Canada Pension Plan (CPP) isn't the most popular decision, but it usually pays off for Canadians who make it. You get an extra 8.4% per year in CPP benefits for each year you delay taking benefits after age 65. The incremental benefits of taking CPP at 70 instead of 60 are even greater than that! You do have to sacrifice some years of benefits to make this work, of course. However, actuarial studies have generally found that waiting until age 70 to take CPP results in a greater amount of lifetime benefits.

In this article, I will explore several reasons why waiting until age 70 to take CPP might be the right decision for you — and a few reasons why it might not be.

If you're 60 now, you're expected to live longer than most Canadians

One reason why waiting until age 70 to take CPP makes sense is because your life expectancy is likely longer than you think. An often-cited statistic is that the average Canadian lives 81.75 years. That's true, but the statistic here is life expectancy at birth. The longer you live, the older age you are expected to reach. If you're 60 now and contemplating taking CPP, then it's quite likely that you will live well into your eighties. If so, your cumulative lifetime benefits from taking CPP at 70 will likely be greater than those earned by taking CPP at 65. They will be far greater than what you'd get by taking CPP at 60.

The benefits of taking CPP at age 70 can be substantial

As mentioned previously, delaying taking CPP results in 8.4% more benefits per year of delay after 65 and before 71. If you take CPP at 70, you get 42% more annual benefits than somebody who takes CPP at age 65. To put that into perspective, a $1,000 monthly CPP cheque could become $1,420 per month by waiting until 70 to take CPP — ignoring the effects of inflation adjustments. That adds up to more than $5,000 per year in additional benefits!

Rare cases where waiting until age 70 isn't worth it

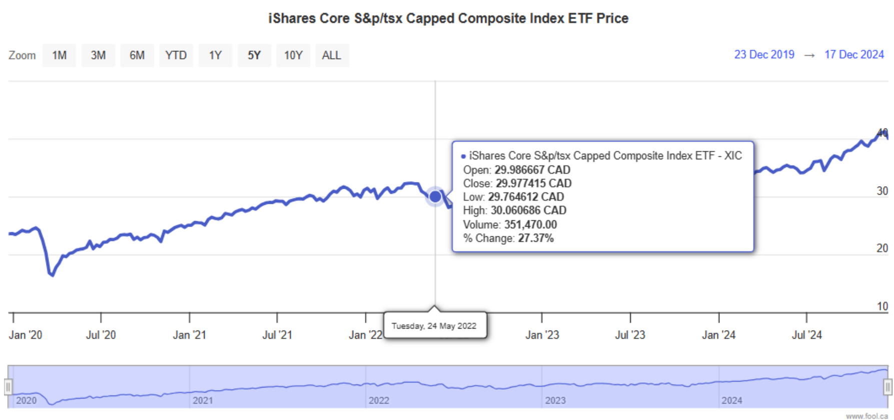
Although waiting until age 70 to start taking CPP is worth it for the average Canadian, there are some specific situations where it isn't. One is having a known health condition that could be terminal. Another is not having the ability to work for whatever reason. If either of these apply to you, it may make sense to take CPP early. Otherwise, it's best to delay taking benefits as long as possible.

Disclaimer

Supplementing your CPP with RRSP and TFSA investments

If going many years without CPP benefits to maximize future benefits sounds like a drag to you, remember that you can supplement your CPP with investments. If you hold assets such as index funds in a Tax-Free Savings Account (TFSA) or Registered Retirement Savings Plan (RRSP), you can realize substantial returns and regular cash income.

Consider iShares S&P/TSX Capped Composite Index Fund (TSX:XIC). It's a Canadian index fund that tracks the S&P/TSX Capped Composite Index, the 240 biggest public Canadian companies by market cap. It actually holds 220 of those stocks, so it is a pretty representative sample of the index it tracks.



XIC's dividend last quarter was $0.2555. Annualized, that provides a 2.5% yield at today's prices. Index funds' actual dividends vary a lot over time because they are made up of many stocks, some of which cut, increase, eliminate or initiate dividends. So, it's hard to say exactly what XIC's yield will be in the future, but somewhere in the 2-3% range appears probable.

Finally, XIC has a very low 0.05% management expense ratio, which means you don't lose much to fees when you invest in it. Overall, it's a great portfolio asset for many Canadians.

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