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Carte WEALTH MANAGEMENT INC.

FEBRUARY 2025 EDITION
VOLUME 14, ISSUE 2

KPW FINANCIAL NAVIGATOR

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Our **"LIFESTYLE WHEEL"** is a unique tool integrated into our extensive financial planning services, designed to empower clients in assessing their current lifestyle satisfaction and pinpointing opportunities for enhancement. This innovative feature examines ten critical lifestyle facets, encompassing physical and emotional well-being, leisure and enjoyment, interpersonal connections, time management, financial health, and personal growth, ensuring a holistic approach to your life's blueprint.

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KPW FINANCIAL WELCOMES XYRLA FERNANDEZ RODRIGUEZ TO THE TEAM

We are thrilled to announce the newest addition to our KPW Financial family, Xyrla Fernandez Rodriguez. Xyrla joins us as a Senior Business and Technology Analyst, bringing with her over a decade of experience working with clients and partner teams globally in designing, implementing, and supporting technology solutions for industry-leading companies.

Xyrla's diverse background is truly remarkable. She began her career as a Civil Engineer before transitioning to business and technology. She holds a Diploma in Business Administration from the Academy of Learning in Toronto, graduating with Honours and receiving an Academic Excellence Award. Her journey as an Analyst spans eight years in the travel industry with Sunwing Travel Group and one year in the payment processing industry with Canada's largest payment processor, Moneris Solutions. With over 20 major projects under her belt, Xyrla excels in Data Analysis, Business Intelligence, Process Optimization, Compliance, System Security, and User Access Management. She has a proven track record of helping business and technology teams leverage solutions, improve operations, enhance customer experience, and minimize risks.

Beyond her professional accomplishments, Xyrla embodies a customer-centric approach, always ensuring a clear understanding of clients' needs and committing to the highest standards of service in every interaction. Her passion for excellence and her dedication to bridging the gap between users and technology make her an invaluable asset to our team.

Outside of work, Xyrla enjoys spending time with her family, taking walks (she's a brave Canadian who embraces all weather conditions), and volunteering with research and AI training projects in support of wildlife and endangered species globally.

Please join us in welcoming Xyrla to KPW Financial. We are confident that her expertise and dedication will greatly contribute to our continued success and client satisfaction.

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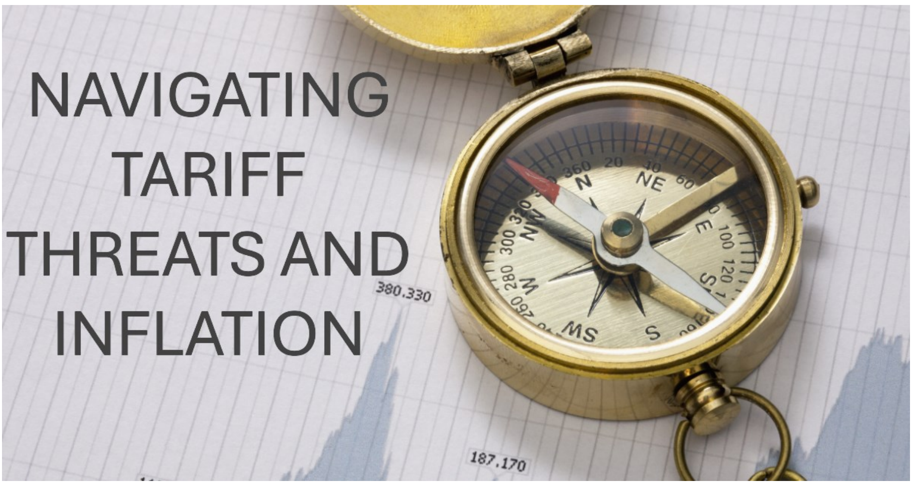
IMAGINE YOUR FUTURE

“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



In an increasingly interconnected global economy, the twin threats of tariffs and inflation loom large over the investment landscape. As governments resort to protectionist measures to safeguard domestic industries, the imposition of tariffs can disrupt supply chains, increase production costs, and ultimately burden consumers with higher prices. Coupled with rising inflation, these tariffs create a perfect storm that challenges businesses, investors, and policymakers alike. This article delves into the intricate relationship between tariffs and inflation, exploring the potential obstacles that lie ahead for investors and offering strategic insights to navigate these turbulent waters.

THE WAY I SEE IT

The Impact of Tariffs on Inflation

Tariffs are essentially taxes imposed on imported goods, intended to protect domestic industries from foreign competition. Tariffs can have both positive and negative impacts on investment portfolios. On the positive side, they can protect domestic industries from foreign competition, which can lead to increased profitability for companies within those industries. This can benefit investors who hold equities in those sectors.

Additionally, tariffs generate revenue for the government, which can be used for public spending or reducing national debt. This can create a more stable economic environment, beneficial for investors. By making imported goods more expensive, tariffs can encourage investors to seek out local alternatives, potentially boosting domestic markets and industries. Furthermore, tariffs can help reduce a country’s trade deficit by making imports more expensive and less attractive, which can strengthen the domestic economy and benefit investors. Lastly, tariffs can create new market opportunities for domestic companies, leading to potential growth and increased stock values for investors.

But, like most things in life, things may not always be as they appear. While the intention behind tariffs might be to bolster local economies, the unintended consequences can be far-reaching. When tariffs are applied, the cost of imported goods rises, leading to higher production costs for businesses that rely on these imports. Consequently, businesses often pass these increased costs on to consumers, resulting in higher prices for goods

Inflation, the rate at which the general level of prices for goods and services rises, can be significantly influenced by tariffs. As the prices of imported goods increase, domestic goods may also see a rise in prices due to reduced competition and higher production costs. This inflationary pressure can erode the purchasing power of consumers and create economic uncertainty.

Obstacles for Investors

Investors face several challenges in this environment of tariff threats and inflation. Firstly, the increased costs of goods and services can lead to reduced consumer spending, impacting the revenue and profitability of businesses. This, in turn, can affect stock prices and the overall performance of the market.

Secondly, inflation can lead to higher interest rates as central banks attempt to control rising prices. Higher interest rates can increase borrowing costs for businesses, making it more expensive to invest in growth and expansion. This can lead to slower economic growth and reduced returns for investors.

Thirdly, the uncertainty surrounding trade policies and tariffs can create volatility in the market. Investors may find it challenging to predict the impact of new tariffs or changes in existing ones, leading to increased market fluctuations and risk.

Strategic Insights for Investors

To navigate these challenges, investors can consider several strategic approaches. Diversification is key, as spreading investments across different asset classes and sectors can help mitigate risk. Investing in sectors that are less affected by tariffs, such as technology or healthcare, may provide some insulation from the negative impacts.

Additionally, focusing on companies with strong pricing power can be advantageous. Businesses that can pass on increased costs to consumers without significantly affecting demand may be better positioned to weather inflationary pressures.

Investors should also keep an eye on monetary policy and interest rate trends. Understanding how central banks are likely to respond to inflation can inform investment decisions and help investors position their portfolios accordingly.

Overall, the likelihood of a better U.S. economy with the implementation of tariffs depends on various factors, including the specific industries targeted, the response of trading partners, and the broader economic context. It's a delicate balance, and the outcomes can vary widely.

Navigating an investment portfolio during times of tariffs and higher inflation can be challenging. Here are my **5 STRATEGIES** for investing during these uncertain times.

Diversification: Spread your investments across different asset classes (equities, fixed income, real estate, commodities) and geographic regions to mitigate risk.

Focus on Quality: At KPW we have always stressed the use of top tier mutual fund managers with extensive histories. Our focus has consistently been on 4 and 5 star fund managers.

Dividend Mutual Funds: Mutual funds that specialize in investing in companies that pay regular dividends can provide a steady stream of income even during inflationary and negative markets.

Short-Term Bonds: If you allocate a percentage of your portfolio to fixed income, consider using funds that overweight bonds that are less sensitive to interest rate changes such as short-term bonds.

Real Assets: Investments in real estate or infrastructure either directly or through mutual funds, can provide a hedge against inflation.

In conclusion, the interplay between tariffs and inflation presents a complex challenge for investors. By staying informed, diversifying investments, and focusing on resilient sectors, investors can navigate these obstacles and find opportunities even in uncertain times.

It is always a good idea to consult with a financial advisor to tailor these strategies to your specific situation and risk tolerance.

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LIFESTYLE FINANCIAL PLANNING BY KPW

Spousal trusts are a valuable estate planning tool in Canada, offering numerous benefits for individuals looking to provide for their spouse after their passing. This article explores the reasons why one might use a spousal trust and how these trusts function.

Why Use a Spousal Trust?

1. Tax Deferral: One of the primary reasons to establish a spousal trust is to defer taxes. When a taxpayer dies, there is a deemed disposition of their capital property, which can trigger significant tax liabilities. However, if the property is transferred to a spousal trust, the tax consequences can be deferred until the surviving spouse's death.

2. Financial Security for the Surviving Spouse: A spousal trust ensures that the surviving spouse is financially secure. The trust can provide a steady income stream and manage the assets on behalf of the spouse, which is particularly beneficial if the surviving spouse is not financially savvy or is unable to manage their own financial affairs.

3. Control Over Asset Distribution: By using a spousal trust, the deceased can control how the assets are distributed after the surviving spouse's death. This can be particularly useful in blended families or situations where there are concerns about the surviving spouse's potential remarriage or spending habits.

4. Protection from Creditors: Assets held in a spousal trust are generally protected from creditors of the surviving spouse. This can provide peace of mind that the assets will be preserved for the intended beneficiaries.

How Spousal Trusts Work

A spousal trust can be established either during the lifetime of the settlor (inter vivos trust) or through their will (testamentary trust). Here's a step-by-step overview of how a testamentary spousal trust typically works:

1. Creation: The trust is created through the will of the deceased. The will specifies that certain assets are to be transferred to the spousal trust upon the death of the testator.

2. Trustee Appointment: A trustee is appointed to manage the trust. This can be a trusted individual, a professional trustee, or a trust company. The trustee is responsible for managing the trust assets and ensuring that the terms of the trust are followed.

3. Income Distribution: The surviving spouse is entitled to receive all the income generated by the trust during their lifetime. This income can be distributed regularly to provide financial support.

4. Capital Distribution: The capital of the trust (the original assets placed in the trust) cannot be distributed to anyone other than the surviving spouse during their lifetime. This ensures that the surviving spouse has access to the income but not necessarily the capital, preserving it for future beneficiaries.

5. Termination: Upon the death of the surviving spouse, the trust terminates, and the remaining assets are distributed to the ultimate beneficiaries as specified in the trust document.

When setting up a spousal trust, it's crucial to avoid common pitfalls to ensure the trust functions as intended and provides the desired benefits. Here are some common mistakes to watch out for:

1. Failing to Fund the Trust: One of the most significant mistakes is not properly funding the trust. This means not transferring the intended assets into the trust, which can result in those assets going through probate. Ensure all designated assets are correctly titled in the name of the trust.

2. Choosing the Wrong Trustee: Selecting an inappropriate trustee can lead to conflicts and mismanagement. It's essential to choose a trustee who is trustworthy, competent, and capable of managing the trust's assets and responsibilities. Consider professional trustees if family dynamics might complicate matters.

3. Lack of Clear Instructions: Ambiguities in the trust document can cause confusion and disputes. Clearly outline the terms, conditions, and distribution instructions to avoid misunderstandings among beneficiaries and trustees.

4. Ignoring Tax Implications: Not considering the tax consequences can lead to unexpected liabilities. Ensure the trust is structured to take advantage of tax deferral benefits and consult with a tax advisor to avoid potential issues.

5. Overlooking Regular Reviews: Failing to review and update the trust periodically can result in outdated provisions that no longer reflect the grantor's wishes or current laws. Regularly review the trust with legal and financial advisors to ensure it remains effective and compliant.

6. Not Planning for Contingencies: It's important to plan for various scenarios, such as the incapacity of the surviving spouse or changes in family circumstances. Include provisions for alternate trustees and beneficiaries to ensure the trust can adapt to unforeseen events.

By avoiding these common mistakes, you can ensure that a spousal trust effectively meets its goals of providing for the surviving spouse, managing assets efficiently, and minimizing tax liabilities.

Spousal trusts offer a strategic way to manage and protect assets, provide for a surviving spouse, and defer taxes. They are particularly useful in ensuring financial security and maintaining control over the distribution of assets. By understanding the benefits and mechanics of spousal trusts, individuals can make informed decisions that align with their estate planning goals.

If you have any questions or need further information on spousal trusts, feel free to reach out!

In my role as a lifestyle financial planner, I often find that when discussing finances with clients, relationships are a key factor influencing financial decisions and outcomes. Whether you're in a new relationship or have been together for years, it's important to understand the profound impact finances can have on your partnership. Money matters, when handled together, can create stability, harmony, and a sense of security in a relationship. However, when left unchecked or mishandled, finances can also create tension, confusion, and even strain. My previous article touched on finances being the leading cause of divorce in Canada, and this month, in light of the **'season to celebrate love',** I'll share some insights into how couples can navigate the complicated nature of relationships and finances while building a strong, successful financial future together.

The foundation of any strong relationship, especially when it comes to finances, is open and honest communication. Couples should feel comfortable discussing their financial histories, goals, and current financial situations. For example, conversations regarding current debts, saving habits, and short-term and long-term financial goals are critical. It is essential to discuss the "big picture" early on, even if it feels awkward or uncomfortable. Transparency allows both partners to understand one another's financial outlook, setting the stage for cooperation and shared goals. Money-related discussions should be regular, avoiding finances becoming a "taboo" subject.

One of the key factors in financial compatibility is understanding your partner's financial mindset. People are often raised with different money values, habits, and perspectives, which can lead to friction down the line if not addressed early. For example, one partner might be a spender, enjoying the thrill of a shopping spree, while the other is more of a saver, prioritizing long-term financial stability. It's vital to take the time to understand each other's financial backgrounds and habits and recognize that there's no "one right way" to approach money. Working together and compromising is key; the spender can learn to be more mindful of saving, while the saver might let loose a bit to allow for some enjoyment. Together, we can create a balanced financial plan that honors both perspectives.

Couples need to decide how they'll manage their finances, separately, jointly, or a mix of both. Some couples prefer to keep their finances separate, maintaining individual accounts for personal spending while having a joint account for shared expenses like rent, utilities, and groceries. Others prefer to merge everything into one joint account. There is no right or wrong approach, but it's important to find what works best for your relationship. If you're unsure, consider a hybrid model where you keep individual accounts for personal freedom but share a joint account for common expenses and savings goals. Regardless of the structure, make sure that both partners have equal input into financial decisions. This ensures mutual respect and creates a sense of shared ownership in your financial future.

One of the most powerful tools in strengthening a relationship is setting shared goals. Whether it's buying a home, saving for travel, building an emergency fund, or planning for retirement, creating financial goals that both partners are committed to can unify our efforts. Start by discussing your individual financial goals and then work together to find common ground.

Be sure to prioritize goals that matter most to both of you and break them down into short-term and long-term milestones. Not only is this something we can help you with, but it gives you both something to work toward, which can deepen your connection and increase your sense of teamwork.

Debt is a common issue for many couples, but how you handle it can make all the difference. When one or both partners bring debt into a relationship, it's vital to confront the situation together. Start by openly discussing how the debt will be handled, jointly or individually. If one person has significantly more debt than the other, be sure to work out a strategy that feels fair to both parties. Debt can feel isolating, but by addressing it together and having a clear repayment plan, couples can avoid resentment and set themselves up for future financial success.

As we know, life is unpredictable, and financial surprises are bound to happen. Whether it's a job loss, a medical emergency, or an unexpected major expense, having a financial safety net is essential for couples. This means setting aside an emergency fund to cover unexpected costs without disrupting your long-term goals.

Having a clear plan in place for such situations ensures that both partners feel secure, no matter what challenges arise. It's also important to review and update your financial plans regularly to ensure you're prepared for any new circumstances that may come your way.

As we teach our clients, managing finances isn't a **"one and done"** process. Just as you'd check in on the health of your relationship regularly, you should do the same with your finances. Set aside time for financial check-ins, discussing how well you're meeting your goals, if any adjustments need to be made, and how each person feels about the financial situation. Celebrate successes, no matter how small, and address any areas that need improvement. Financial discussions should be ongoing and collaborative, not a one-sided affair.

Ultimately, handling financial matters as a couple is about collaboration, compromise, and understanding. By starting with open communication, being aware of each other's financial styles, and setting shared goals, you can build a financial foundation that strengthens your relationship. Whether you're planning for a future together or just looking to align your current financial habits, being proactive and intentional with money will lead to peace of mind and a greater sense of unity. It is important to remember that finances are just one part of the relationship, but when managed well, they can deepen trust and bring you closer to your shared vision.

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PROTECTING YOUR LIFESTYLE BY KPW

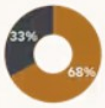
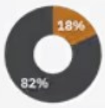
MANAGING TAX IN MUTUAL FUND OWNERSHIP

We know that tax planning is a crucial part of wealth management, but for many investors, the nuances of how investments impact their tax bill, and the value of solutions designed to manage tax, can be a difficult grasp. The best way to highlight this value is through direct comparison, showing how a tax-managed investments stack up against each other. In this illustration I will be comparing a number of Canoe mutual funds.

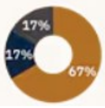
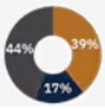
By illustrating the differences in taxes and after-tax returns, you will see the value of a strategy designed to maximize what you keep, not just what you earn.

The illustrated comparison is based on actual distributions and returns earned in 2024 to an Ontario investor in the highest marginal tax bracket.

Canoe Bond Advantage Portfolio Class | Canoe Bond Advantage Fund

	Portfolio Class	Fund	*Portfolio Class: value added*
Distributions	$10,000	$10,000	
Tax payable	$1,741	$4,384	*60% less tax payable*
After-tax proceeds	**$8,259**	**$5,616**	*1.5x more after-tax proceeds*
% kept after-tax	**83%**	**56%**	*26% difference in retention*
Distribution yield	4.14%	4.01%	
After-tax yield	**2.67%**	**2.06%**	*0.61% more in after-tax yield*
Pre-tax interest equivalent yield	**5.75%**	**4.33%**	*1.32% more in interest equivalent yield*
Distribution composition ● ROC ● Interest income			*More tax-deferred cash flow*

Canoe Enhanced Income Portfolio Class | Canoe Enhanced Income Fund

	Portfolio Class	Fund	*Portfolio Class: value added*
Distributions	$10,000	$10,000	
Tax payable	$1,549	$3,016	*49% less tax payable*
After-tax proceeds	**$8,451**	**$6,984**	*1.2x more after-tax proceeds*
% kept after-tax	**85%**	**70%**	*15% difference in retention*
Distribution yield	4.19%	4.05%	
After-tax yield	**2.80%**	**2.40%**	*0.39% more in after-tax yield*
Pre-tax interest equivalent yield	**6.02%**	**5.17%**	*0.85% more in interest equivalent yield*
Distribution composition ● ROC ● Eligible dividends ● Interest income			*More tax-deferred cash flow*

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Canoe Global Income Portfolio Class | Canoe Global Income Fund

	Portfolio Class	Fund	*Portfolio Class: value added*
Distributions	$10,000	$10,000	
Tax payable	$1,337	$3,564	*62% less tax payable*
After-tax proceeds	**$8,663**	**$6,436**	*1.3x more after-tax proceeds*
% kept after-tax	**87%**	**64%**	*22% difference in retention*
Distributionyield	5.64%	5.38%	
After-tax yield	**3.75%**	**2.98%**	*0.77% more in after-tax yield*
Pre-tax interest equivalent yield	**8.08%**	**6.42%**	*1.66% more in interest equivalent yield*
Distribution composition ● ROC ● Interest income	25% 75%	33% 67%	*More tax-deferred cash flow*

Canoe Unconstrained Bond Portfolio Class | Canoe Unconstrained Bond Fund

	Portfolio Class	Fund	*Portfolio Class: value added*
Distributions	$10,000	$10,000	
Tax payable	$2,238	$4,928	*55% less tax payable*
After-tax proceeds	**$7,762**	**$5,072**	*1.5x more after-tax proceeds*
% kept after-tax	**78%**	**51%**	*27% difference in retention*
Distributionyield	4.02%	4.03%	
After-tax yield	**2.50%**	**1.96%**	*0.54% more in after-tax yield*
Pre-tax interest equivalent yield	**5.37%**	**4.22%**	*1.15% more in interest equivalent yield*
Distribution composition ● ROC ● Interest income	42% 58%	8% 92%	*More tax-deferred cash flow*

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CREATING A LEGACY OF FINANCIAL AFFLUENCE

WP WEALTH PROFESSIONAL

ALMOST HALF OF ALL CANADIANS LACK ESTATE PLANS, LEAVING FINANCIAL AND MEDICAL DECISIONS UNCERTAIN

By Freschia Gonzales

SCOTIATRUST SURVEY REVEALS GAPS IN WILLS AND POWER OF ATTORNEY DOCUMENTS, LEAVING KEY DECISIONS UNMADE

The Scotiatrust Wills and Estate Planning Survey finds that many Canadians are unprepared for their later years.

The survey found that 41 percent of respondents do not have a power of attorney (POA) document to manage their finances or assets in case of incapacitation, and 47 percent lack a POA for personal and medical care.

Sixty-nine percent of respondents have an up-to-date will, yet among those without one, 55 percent admitted they had not created one because they had not gotten around to it. Many respondents also have not discussed important end-of-life issues with their loved ones.

Only 33 percent have spoken about where they wish to spend their final days, whether at home, in hospice, or in a hospital. Despite 77 percent preferring to remain in their own homes, 43 percent have not discussed aging in place with their children.

Less than half, or 45 percent, have shared their preference for a final resting place.

Relationship status also influences estate planning decisions. Single individuals express greater concern about aging, with 65 percent worried about their later years compared to 44 percent of couples.

Singles also show a greater tendency to discuss their plans, with 57 percent having talked about their final years with close friends or advisors.

Among them, 57 percent have both types of POAs, compared to 49 percent of couples, while only 34 percent of separated or divorced individuals have prepared both documents.

Rob McGavin, managing director at Scotiatrust, emphasized the importance of preparation.

“As we continue to live longer, and not always in great health, we could be faced with illness or incapacitation and it's imperative to be prepared and ensure your wishes are met,” he said.

He noted that having a POA guides loved ones through difficult moments when emotions run high.

Scotiatrust’s white paper, 'Unlocking Your Legacy – Empowering Canadians in Estate Planning,' highlights key aspects of estate planning beyond writing a will.

The process includes selecting executors, considering trusts, insurance, and tax strategies, and integrating philanthropy. Regularly reviewing a will and discussing plans with family members ensure clarity and minimize disputes.

The survey revealed that while 90 percent of affluent Canadians over 50 have a will, only 69 percent say it remains up to date. Furthermore, 25 percent have never sought professional advice for estate planning.

Many respondents worry about aging and financial security, with 91 percent believing their care should not burden their family and 46 percent expressing anxiety over what will happen to them in old age.

Estate execution can present significant challenges. Although 91 percent of respondents trust their executor to handle responsibilities, 63 percent recognize that the role is emotionally demanding.

Among those who have served as executors, the most commonly cited difficulties include time constraints and family conflicts. Additionally, 62 percent have appointed a spouse or child as executor, a decision that can lead to strained relationships.

Taxation plays a crucial role in estate planning. Income taxes and probate fees both impact estates. When a person dies, capital assets are generally deemed sold at fair market value, and any resulting gains are taxable. Registered accounts, such as RRSPs, are also subject to taxation.

Most provinces impose estate administration taxes on assets passing through an estate.

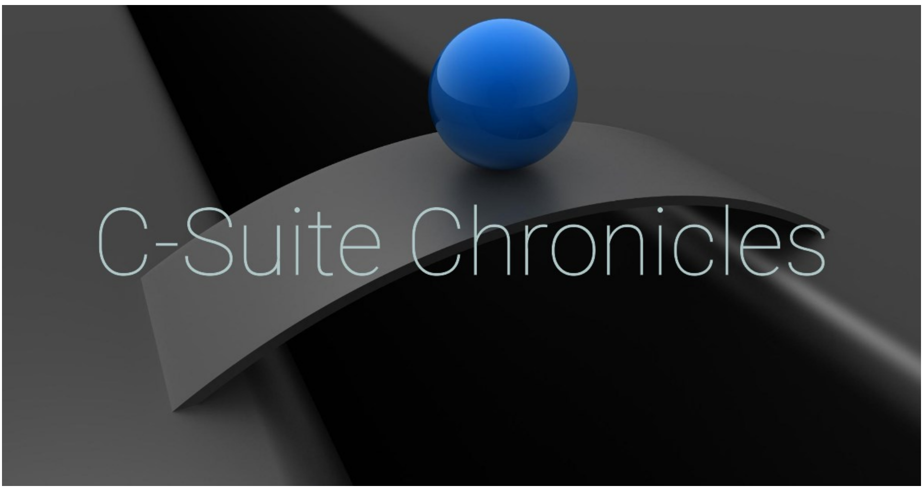
McGavin stressed the importance of tax-efficient strategies, such as permanent life insurance, to transfer wealth effectively.

Trusts also offer a way to control asset distribution, preventing risks associated with marital breakdowns or financial mismanagement by beneficiaries.

Many Canadians avoid estate planning discussions due to discomfort.

Mallory McGrath, founder and CEO of Viive Planning, observed, “We are a death-avoidant society. Anything associated with death or aging, we just don’t want to think or talk about it.”

BEHAVIORAL FINANCE BY KPW



U.S. TARIFFS: WHAT'S NEXT? 5 WAYS SMALL AND MEDIUM-SIZED CANADIAN BUSINESSES CAN NAVIGATE UNCERTAINTY

By Diane Amato

Canadian business owners are no strangers to disruption. From pandemic shut-downs to supply chain issues, talent shortages to inflation, they've weathered it all. Now, with the reality setting in of possible 25% tariffs on Canadian exports to the US., businesses are bracing for more turbulence.

Will things get choppy? Likely. But you've got this. As a business owner, you've adapted, pivoted and developed resilience that has pulled you through tough times before. Weathering this next storm comes down to applying lessons learned, preparing your business for change and creating a Plan B (and maybe a Plan C) to navigate through the uncertainty ahead.

The situation: Story developing (last updated Feb 4, 2025)

On February 1st, the U.S. announced 25% tariffs on Canadian goods and 10% tariffs on Canadian energy exports imported into the U.S. In response, the Canadian government announced 25% tariffs on $155B worth of goods imported from the U.S. As of February 3rd, a day before the tariffs were due to take effect, the U.S. and Canadian governments reached an agreement that put the tariffs on hold for 30 days. Visit the Government of Canada website for a rundown of the U.S. tariffs and Canada's response.

How can tariffs affect Canadian businesses?

As goods enter a country, they are classified by customs. Some goods have a government-mandated tariff added to the cost that the buyer must pay, essentially a sales tax, before the goods are released at point-of-entry (for example a retailer buying inventory or manufacturer securing parts to make their products). The impact of these tariffs on the Canadian economy and Canadian businesses will depend largely on how long the tariffs remain in place and what, if any, escalation occurs as a result of counter-tariffs.

How a U.S. tariff flows through the Canadian economy

This article from RBC Economics outlines the potential impacts to Canada, the factors that influence that impact and the ways a U.S. tariff would likely flow through the economy.

Canadian businesses of all sizes will feel the impact of tariffs – not just big business. While 56% of Canadian goods exported to the U.S. come from larger businesses, 43% of exports are from small and medium-sized businesses, according to Statista.

As businesses face the uncertainty of what might come next, there are ways to prepare for the fallout.

Five things to do now to prepare your business for U.S. tariffs

1. Evaluate the risks within your industry

As the RBC Economics report outlines, trade-sensitive industries are the most vulnerable to tariffs. If your industry trades a lot relative to your production, it will be more exposed to the impact of tariffs. The automotive industry has been highlighted as the most vulnerable, with primary metal and chemical manufacturing, construction and agriculture as others high on the list.

Keep in mind, some industries may contend with indirect impact – restaurants in towns reliant on automotive manufacturing, for instance, may see fewer customers if there are layoffs or even extended uncertainty.

If your business relies on goods imported from the U.S., it's worth reviewing the list of items covered by tariffs imposed by the Government of Canada. It appears the government is keen to give Canadian businesses time to find alternate suppliers. This last-minute reprieve also provides an opportunity to find ways to protect your business – some of the strategies outlined below can be a great starting point.

2. Examine your inventory, supply chain and customer base

Decades of free trade have led to integrated supply chains across Canadian and U.S. borders. This means goods travel back and forth throughout production lifecycles – a product may be manufactured in Canada but require parts from the U.S. – or vice versa – and may be shipped back and forth before it's completed.

In other circumstances, companies might import supplies from China or Mexico, which may transit through the U.S. Businesses that rely on transitioning goods – even if those goods aren't destined for the U.S. – could be affected.

How might tariffs affect your business?

If you export to the U.S.

Your products will become more expensive for your U.S. customers. This could mean they become less competitive in the U.S. market:

- Demand may soften – especially if Americans can find a similar product for less
- Profit margins may need to be cut
- Cost cutting measures may be necessary

If you import from the U.S.

Retaliation tariffs will likely occur. As the prices you pay for U.S. goods rise, your margins may take a hit:

- Owners may be forced to substitute U.S. goods and inputs
- Profit margins may tighten if businesses absorb price increases
- Goods imported from China or Mexico that transit through the U.S. may need to be reevaluated

3. Run business scenarios based on changing consumer demand

Scenario planning is one of the best ways to prepare your business for periods of uncertainty. Often defined as “what if” planning, business scenario planning involves making assumptions about what the future will bring to understand how different situations may affect your business.

Since there is considerable uncertainty around the tariffs, there are plenty of “what ifs” to consider.

What if sales slowed? If the U.S. is one of your primary markets, you may face softer demand – especially if American consumers can find an alternative to your product for less.

Possible solutions:

- Initiate new marketing programs to reach new client groups
- Adjust product features to appeal to a new audience
- Explore alternate markets

What if profits take a hit? If the cost of your inputs increases, your bottom line may be affected.

Possible solutions:

- Revisit your market analysis and consider raising your prices
- Look for alternate suppliers that aren’t subject to tariffs
- Find ways to reduce your fixed and operating costs

What if there is fluctuation with the Canadian dollar? The Loonie has already dropped and further fluctuation isn’t out of the question. How do you prepare for economic circumstances beyond your control?

Possible solutions:

- Consider raising your prices to offset the impact of a lower CAD\
- Renegotiate supplier contracts where possible
- Look for domestic suppliers to mitigate foreign currency concerns

What if you need to take on more debt? If you need to turn to credit to shore up your cash flow, can your business absorb the repayments?

Possible solutions:

- Look for lower-interest-rate debt, especially for longer term needs
- Renegotiate terms with lenders, if possible
- Meet with an advisor to discuss your options

4. Research new revenue streams

While it may be impossible to replace the U.S. as a customer, consider ways into other markets that can help you diversify your sales.

RBC offers tools and support to help you identify potential markets, global trading partners and new supplier networks.

While you’re doing your research, consider, too, new ways to deepen your existing local customer base. Is there a different demographic set you can reach with new marketing tactics or product features? Are there new sales channels you can tap into? As you evaluate your products and your markets, it’s also a good opportunity to brainstorm ways to further innovate or differentiate your offering. This may be the time to get creative!

5. Streamline your business operations

As you potentially deal with higher input prices, softer demand and/or tighter profit margins, it’s worth looking for ways to reduce your operating costs. Can you lean into technology to automate time-consuming and expensive manual processes? Can you outsource labour? Does it make sense to downsize your office or warehouse space so rent and utilities costs go down? Read our Five Tips to Help Find Hidden Savings and Offset Rising Business Costs for more ideas.

Staying informed and being positioned for change can help prepare your business for what comes next.

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MACRO OUTLOOK: UNCERTAINTY ABOUNDS

BY OLGA BITEL, GLOBAL STRATEGIST, WILLIAM BLAIR

Before the U.S. election on November 5, 2024, the outlook for the world economy looked robust and consistent with economic expansion. Both the U.S. and European economies were expected to enjoy ongoing real wage growth, which would support private consumption, the largest component of aggregate gross domestic product (GDP) for both economies.

In addition, ongoing deceleration in inflation was expected to support real wage gains and, by extension, private consumption. Meanwhile, in China, unwanted fiscal retrenchment is being addressed, such that the economy was likely to accelerate modestly as we head into 2025.

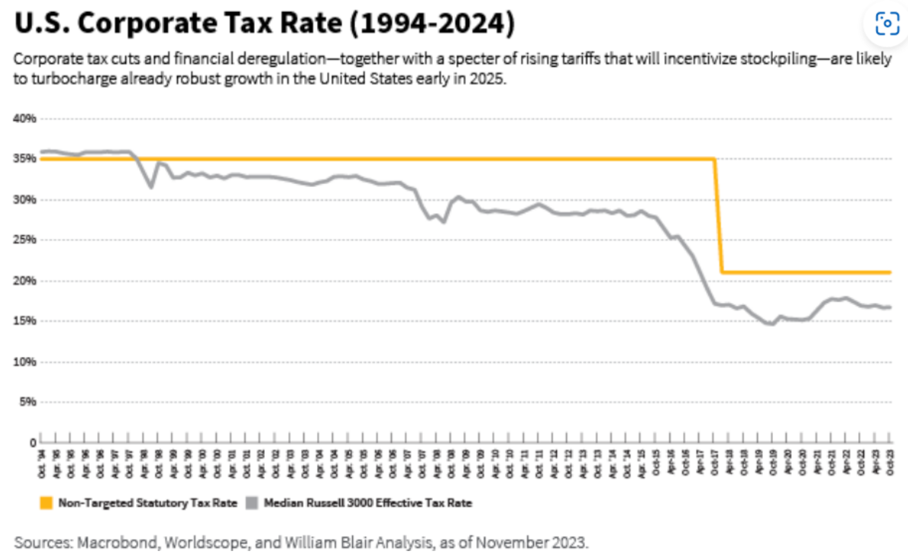
But the results of the U.S. election have made this outlook far more uncertain. There are now many more plausible outcomes, and their distribution is nearly flat, with both left and right tails having increased significantly.

The United States

The tax cuts from the 2017 Tax Cuts and Jobs Act, due to expire next year, are now likely to become permanent. Corporate tax cuts usually flow directly into corporate earnings, which are now likely to be stronger. Deregulation—especially in banks and financial services more broadly—can also spur activity and earnings in some pockets of U.S. financials.

Corporate tax cuts and financial deregulation—together with a specter of rising tariffs that will incentivize stockpiling—are likely to turbocharge already robust growth in the United States early in 2025.

To the extent that the newly minted, time-limited Department of Government Efficiency (DOGE) committee incentivizes digitalization of federal government efforts, this could bring information technology (IT) services projects and further down the road, efficiency and quality-of-service gains for the U.S. government.



Disclaimer

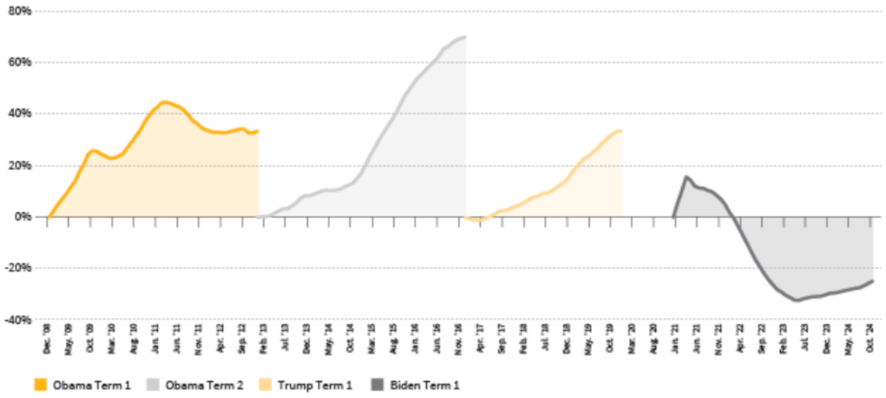
The inflation outlook is now less clear, too. We expect U.S. households will likely bear the full brunt of price increases that result from tariffs. Thus, higher prices mean reduced purchasing power and, therefore, reduced demand.

Tariffs are a regressive tax on domestic consumers; poorer consumers pay a higher share of their income for goods and therefore pay a higher proportion (relative to their income) of tariffs, as tariffs on steel and autos are likely in the near term insofar as they have been prepared already.

We believe broadening tariffs to progressively more products will hit U.S. consumers harder and could induce a significant destruction of domestic demand.

U.S. Real Cumulative Wages Growth

Real wage growth has been in decline, and with the inflation outlook less clear and tariffs on the horizon, we could induce a significant destruction of domestic demand.



Sources: U.S. Bureau of Labor Statistics (BLS) and William Blair, as of November 31, 2024. 2020-2021 is excluded from Trump's first term due to COVID-related irregularities.

Tariffs are also likely to have second-round price effects on domestic producers: if we are to levy a tax on French cheese and wine, Wisconsin cheese and Napa Valley wines would cost more but still be cheaper than imported cheese.

For more durable goods, it may be cheaper to keep repairing an old washing machine than to buy a new one; thus, the demand for repair services will increase, and with it, domestic services prices will increase.

U.S. domestic price pressures are likely to intensify further if the proposed immigration policies—deportations and inflow reduction—are enacted. To the extent that illegal migrants tend to fill labor-intensive jobs in construction, agriculture, and industrial services, wage pressures may already show up here in 2025.

The sequence with which the proposed policies are enacted will likely play a crucial role in actual GDP growth outcomes. Based on current pronouncements of the next administration, we expect that the direction of travel for the U.S. economy is likely higher inflation, poorer households, and lower growth—and therefore, lower corporate profits, too—but maybe not in 2025.

YOUR 2025 GUIDE TO RETIREMENT INCOME IN CANADA

It's all about financial planning and determining which sources of income you can count on.
By Matthew Elder

After many years on the job, most of us look forward to retirement. But uncertainty over one's financial security is less palatable. Just how much money is enough? Depending on how active you expect to be, particularly in terms of recreation and travel, the figure many experts come up with is between 60% and 70% of your pre-retirement income. Perhaps you can get by on less.

An adequate nest egg will thus depend on your projected lifestyle, the age at which you begin drawing on your savings, and whether you wish to leave an inheritance to your family and perhaps a bequest to charity.

Regardless of the savings you eventually achieve, it's important to know what sources you can draw retirement income from, and how this money will be taxed. For most retirees, this includes:

Determine Your Sources of Income

- Savings accumulated in government pensions
- Employer Pensions
- Life Income retirement accounts
- Registered Retirement Savings Plans (RRSPs)
- Tax-free savings accounts (TFSAs)
- Other investments and savings outside the various tax-advantaged vehicles

Here's a breakdown of your likely income sources.

Government Pensions

These include old age security (OAS) and the Canada Pension Plan (CPP)—or if you live in Quebec, the nearly identical Quebec Pension Plan (QPP). Your OAS entitlement depends on how long you have lived in Canada and your overall income level once you begin receiving this pension. C/QPP is available solely based on your contributions to these plan(s) during your working years. (CPP and QPP are largely synchronized, so if you worked both inside and outside Quebec over the years, your contribution records are consolidated.)

The normal age for applying for C/QPP benefits is 65. You can start to receive benefits as early as age 60, but the monthly amount will be smaller. Payments will decrease by 0.6% each month (or by 7.2% per year) up to a maximum reduction of 36.0% if you start at age 60.

By the same token, if you postpone receiving your pension (as old as 70), you'll receive bigger monthly payments. These will increase by 0.7% each month (or by 8.4% per year) up to a maximum increase of 42% if you start at age 70.

For assistance with deciding when to start taking your pension, consult the CPP website's calculator.

OAS and GIS

As of 2025, OAS will pay a maximum of C$728 for those ages 65-74 and C$800 if 75 and over. These amounts will be greater if you delay beginning to receive payments, which you are permitted to do until age 70. However, if your annual net income from all sources exceeded C$90,997 in 2024, you will be subject to the OAS pension recovery tax, more popularly referred to as the "clawback." OAS income received from July 2024 through June 2025 must be partially repaid (depending on your income level) and fully repaid if your 2023 income exceeded C$142,609 (or if 75 and over, C$148,179). For the following period (July 2025-June 2026), the clawback threshold (based on 2024 income) will be C$90,997, with benefits completely paid back if your income exceeds C$148,605 (C$153,771 for 75-plus recipients).

To determine your OAS payments, consult the online Old Age Security Benefits Estimator.

There is an extra amount, known as the Guaranteed Income Supplement (GIS), available for seniors whose income is below C$21,624 (income thresholds are higher for those with a spouse, depending on whether they receive a full OAS pension.

Employer Pensions

Your employer's pension department (or the financial institution that administers the plan) will provide you with information on the benefits (usually as periodic payments) you will receive, usually beginning at age 65. In the case of a defined benefit plan, the payments will be fixed and guaranteed (and in some fortunate cases, indexed to inflation). Defined contribution plans are similar to employers' group RRSPs; your plan administrator will provide details on the payment amount and other details.

In some cases, you may have employer-pension-related savings in a locked-in retirement account (LIRA). This is akin to a locked-in RRSP, where you have control of how the money is invested but cannot withdraw until retirement, when the LIRA is converted to a life income fund (LIF) or, in some situations, a locked-in retirement income fund (LRIF) or a restricted life income fund (RLIF). The latter operates similarly to a RRIF, discussed below.

As with other types of pension income, proceeds from employer pensions are fully taxable.

TFSAs

Although not specifically designed to provide retirement income, a TFSA is often part of the mix. However, it can last for as long as you live, including ongoing annual contributions. As such, it provides a continual tax shelter, as withdrawals are completely tax-free. Draw down your TFSA only if you need money beyond what you are receiving from other sources.

RRSP Savings

Most Canadians' retirement income hopefully comes from many years of making significant contributions to their RRSPs. These contributions are tax-deductible, which means the entire amount in your plan (capital and income) grows on a tax-deferred basis over the years until money is withdrawn, in most cases through a registered retirement income fund (RRIF). Since this generally happens after retirement, in theory, tax will be payable at a lower tax rate than had you made the withdrawal in a higher income, working year.

An RRSP must be terminated by the end of the year in which you turn 71. The proceeds can be taken as cash (and fully taxed in that year, which is a very expensive choice). The viable options are to transfer the RRSP balance to an RRIF or purchase a registered annuity.

In both cases, the savings continue to be enhanced by a tax deferral until the money is paid out to you, at which point the proceeds (both capital and income) are fully taxable.

With a registered annuity, you surrender control of your retirement assets in exchange for a guaranteed payment, either a fixed amount or an indexed amount, depending on the level of interest rates at the time the annuity is purchased and on the type of annuity. Some annuities pay for life while others terminate at a specified age, such as 90.

RRIFs

Most people take the RRIF route, as it allows you to retain control over how your savings are invested and the amount of income you can draw down. The only difference from an RRSP is you must withdraw a minimum percentage amount each year, and that amount increases each year.

If you begin taking RRIF payments in the year in which you are age 71 as of Jan. 1, the minimum withdrawal for that year is 5.28% of the fund's total assets. The minimum withdrawal payouts increase incrementally, to 5.40% the following year (based on age 72 on Jan 1), 5.53% the next year, and so on.

While many retirees opt to receive periodic payments (usually monthly or quarterly) for the sake of managing their cash flow, the most tax-effective timing is to withdraw the minimum amount just before the end of the year, thus maximizing the tax deferral.

Remember that RRIF payments are fully taxable at your marginal tax rate, and tax may be withheld by the financial institution that holds your fund. If you withdraw only the minimum amount, no tax will be withheld at the source. On amounts over that, the following withholding taxes apply:

Up to C$5,000: 10% withheld (for Quebec residents, a combined total of 19% to the CRA and Revenu Québec)

C$5,000-C$15,000, 20% (Quebec 24%)

Over C$15,000, 30% (Quebec 29%)

Written by

Kevin McCreadie, MBA, CFA®

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BACK TO THE GRIND

Global financial markets resumed their winning ways in January, but gains weren't exactly easy to come by and were earned in a climate of heightened volatility that investors may need to get used to as 2025 progresses, says Kevin McCreadie, AGF's CEO and Chief Investment Officer.

How does the first month of 2025 stack up to your expectations of financial markets heading into the new year?

It's been very much like we predicted. Not because news and events have unfolded exactly as we thought or that equities and bonds have performed to a tee, but because big issues that we identified as volatility inducing in our Outlook have so far been just that, leading to positive, yet fragile global returns that have been a grind to come by.

This includes the ongoing debate about central bank policy and where interest rates are headed from here. At last count, CME Fund Watch says there is a 32.6% chance that the U.S. Federal Reserve's (Fed) overnight lending rate will be 50 basis points lower in December than now, but a 29.5% chance it will only be 25 basis points below today's current target rate of 4.25% to 4.5%. Moreover, 10.9% of estimates believe the rate will remain unchanged this year, which only speaks further to the deep uncertainty about the Fed's actions going forward.

Of course, this is also true of the Bank of Canada and other central banks that are trying to navigate soft landings for their economies as well. Every time a new set of data is released – regardless of where – there is now a reckoning of sorts as probabilities of future rate cuts are adjusted and investors re-position themselves accordingly.

Take for example, some of the back and forth that we've experienced in recent weeks, particularly as figures for key U.S. economic indicators like employment, inflation and retail sales were released earlier this month. For every one of these indicators that suggested more rate cuts than expected may be warranted, there seemed to be another that pointed to the very opposite.

Given that dynamic alone, volatility continues to be about the only certainty in the current market environment, yet monetary policy is not all that is at play right now.

What are your initial thoughts about U.S. President Trump's second term?

The Trump administration that took hold on January 20th really is a wild card. It is no secret that President Trump's second term agenda could have a large impact on the global economy and financial markets going forward and some of his first flurry of executive orders are bound to resonate if they haven't already.

Notably, Trump's decision to rescind his predecessor's 2023 executive order addressing risks associated with the use of Artificial Intelligence (AI) is seen by some as a fresh boon to AI-related stocks, and we believe it may also mark the beginning of Trump's plan to deregulate other sectors and industries, which would generally be seen as favourable for equity prices as well.

Meanwhile, his various orders favouring fossil fuels over renewable energy is a clear shake up for the energy sector, while separate orders limiting immigration could end up having a significant impact on the U.S. jobs market. In fact, by some estimates, there are upwards of nine million undocumented workers in the U.S., many of whom could soon be deported and will need to be replaced. But mass deportations may not only affect labour supply. If employers are forced to pay up to attract new workers, it could also result in wage growth (and higher inflation), which we expect could have clear implications for Fed policy going forward.

Granted, the executive order(s) that have investors most on edge are those yet to be signed in relation to potential tariffs on goods entering the United States from countries such as Canada, Mexico and China.

Trump seems to be using the threat of tariffs as a negotiating tactic to secure other “wants” of his — including beefed-up security along the Canadian and Mexican border — but they may also be seen as a necessary tool in the U.S. for raising revenues to offset the expected increase in spending that will be associated with Trump’s promise to extend his first-term tax cuts.

Either way, it’s fair to expect new tariffs will be announced by the U.S. administration even if it’s unclear to what degree they will be administered, or which countries are Trump’s ultimate (first) targets. Indeed, the best-case scenario may be a less aggressive roll out on tariffs than has been threatened to date. Not only might this lower the risk of retaliatory measures from countries like Canada, but we believe it would also potentially limit the negative consequences of tariffs, including the potential for higher inflation, or worse, economic recession in the countries most severely impacted. Any toning down of the tariff rhetoric will be met with relief from the global equity and bond markets who fear these negative consequences.

You mentioned earlier that news and events haven’t unfolded exactly as predicted this month. Does the selloff in AI-related stocks fall under that category?

Yes, it qualifies. Or at least the circumstances behind the selloff do. After all, some people are calling it a black swan event, which, by definition, happens without warning. But I’m not sure our investment team was entirely surprised by the rout itself. AI stocks have had a tremendous run over the past couple of years and were probably due for a pullback. The only question was the catalyst that would cause it.

That said, DeepSeek (the new open-source Chinese AI language model at the heart of the storm) was probably not the catalyst most people had in mind. In fact, leading up to the day of selloff, there was very little fanfare about it, except maybe amongst people really in the know. Even so, most investors were left off guard by the news that DeepSeek was supposedly trained on a much smaller budget in terms of semiconductor chips used or energy consumed than it’s American-made competitors yet still it seems to provide comparable capabilities. And almost immediately, investors reacted to this news by questioning the economics of the AI trade, particularly as it relates to the level of capital expenditures that incumbent “hyperscalers,” or those building competing capabilities say they require.

But instead of being a sort of death knell for markets, the selloff is more like a wake-up call that tempers some of the exuberance of the AI trade, while offering a new perspective on where it might be headed. And as cooler heads prevail, we believe DeepSeek’s ultimate disruption may be to create efficiency gains for more companies that want to use AI (at significantly lower costs) and that ongoing investment in AI infrastructure is not a waste as some others have suggested, but a path to even more products and acceptance.

Clearly, much still needs to be learned (and verified) about DeepSeek’s cost efficiency and overall capabilities, but if its initial claims are true, we expect it’s very likely to be a catalyst for the good, which may drive a much more rapid and accelerated adoption of AI and spur any related productivity gains that come with that.

Ultimately, investing in artificial intelligence may remain beneficial to investors, however, like financial markets more broadly, that benefit may not always come easy and will often be accompanied by bouts of heightened volatility.

PROTECTING YOUR LIFESTYLE BY KPW

WITH MILLIONS OF CANADIANS UNPREPARED FOR RETIREMENT, WHAT CAN ADVISORS DO?

By David Kitai

The painful reality of Canadian retirement appears to be how few of us are actually ready for it. Across the three core metrics measured by the National Institute on Ageing (NIA) at Toronto Metropolitan University — health, wealth, and socialization — retirees and pre-retirees are in a difficult position. Savings rates are low, social networks are weak, and physical health remains a key corollary with better financial and social outcomes.

Addressing these gaps requires a mindset shift on the part of Canadians and the financial services industry. That shift may involve more than the means by which advisors address retirement issues for their clients, it could also involve a reset of how we measure wellness in retirement. According to the newly developed Material Deprivation Index (MDI), 20 per cent of Canadians over 50 experience a poverty-level standard of living, over double the official measure in Canada which focuses just on income. Natalie Iciaszczyk, program manager for survey research at the NIA and one of the authors of the 2024 NIA Ageing in Canada Survey explained how the metrics we use can show us a clearer picture of retirees' wellbeing and pre-retirees readiness.

“The MDI is a new, alternative approach to measuring poverty. Unlike methods typically used to assess poverty in Canada—such as the Market Basket Measure (MBM) and the Low-income Measure (LIM), which focus primarily on household income levels—the MDI assesses material outcomes and focuses on what households can actually afford,” Iciaszczyk says. “The MDI measure is based on a list of 11 goods, services and activities that most people consider necessary for maintaining an acceptable standard of living in Canada such as dental care, transportation, footwear. You can learn a lot more about people's financial situations if you take a look at these items rather than income alone.”

When speaking directly to Canadians over 50, the NIA team found a significant gap in retirement preparedness. Only 34 per cent of that population believe they can afford to retire when they want. 19 per cent of that population have no retirement savings and one in four Canadians have less than $5,000 saved for retirement. Iciaszczyk says this highlights just how financially vulnerable many older Canadians are.

Those Canadians who appear more ready for retirement tended to be homeowners and have higher income or access to a workplace pension. Other non-financial metrics appeared correlated, too. Canadians who tended to be healthier and have more social links also tended to be more ready for retirement.

On those social metrics, the survey also found surprising gaps among Canadians aged 50 and over. More than one third of Canadians struggle with weak social networks and only 39 per cent say they engage in social or recreational activities at least once a week. 23 per cent said they never engage in these activities.

While 64 per cent of respondents said they could access the healthcare services they needed, access begins to fall when examining Canadians who lack adequate financial resources. Across those social and health metrics in retirement Iciaszczyk says material wellbeing — or a lack thereof — plays a crucial role. She says that advisors can make a number of key interventions in the leadup to a client's retirement that can help improve their financial, social, and physical well-being.

Iciaszczyk identifies CPP/QPP benefits as a key step. Despite the advantages that come with waiting until age 70 to claim these benefits, 90 per cent of Canadians claim their benefits by age 65. If advisors work to show more Canadians whether they can afford to delay their claims, they might make an immediate impact on some of the gaps the NIA survey identifies. She believes the whole industry can work to improve outcomes and shift mindsets by asking Canadians a few key questions in the leadup to retirement.

"The financial services industry needs to help individuals and couples contemplate, understand, prepare and manage post-retirement finances in line with their consumption needs and preferences," Iciaszczyk says. "We can encourage Canadians to ask themselves key questions like: 'Do I have enough retirement income to fund my lifestyle?' ' What are the adverse financial consequences if the assumptions (investment returns, inflation, longevity, homecare needs, etc.) don't work out according to plan?,' and 'What options do I have to create a better, more secure retirement for me and my family?'"

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LIFESTYLE PLANNING BY KPW

OPINION: DISABILITY POLICIES FAILING CANADIANS WITH DISABILITIES

RRSPs AFTER AGE 60: TO CONTRIBUTE OR NOT TO CONTRIBUTE?

THE HOWS, WHYS, AND BENEFITS OF TFSAs

A.I. CAN SPEED UP UNCONTESTED PROBATE APPLICATIONS: LAWYERS

INSOLVENCIES ROSE 12.1% IN 2024, LED BY BUSINESS FILINGS

INCOME SPLITTING STRATEGIES—REDUCE YOUR FAMILY TAX BURDEN

RENT PRICES ACROSS CANADA FALL TO 18-MONTH LOW

BANK OF ENGLAND CUTS RATES WHILE WARNING OF INFLATION AND TRADE WAR RISKS

ONTARIO TEACHERS' PLAN MEMBER LAWSUIT HIGHLIGHTS CRYPTOCURRENCY INVESTMENT RISKS: EXPERT

DEEP INCOME POVERTY: EXPLORING THE DIMENSIONS OF POVERTY IN CANADA

CANADA'S INFLATION SPIKE COMPLICATES PICTURE FOR MORE BANK OF CANADA RATE CUTS

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INSIGHTS FROM THE INVESTMENT FLOOR

Mutual Fund Managers' Perspectives

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