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# The Way I See It

By Sergio Simone

## A Noisy Year With Opportunities Hiding in the Volatility



If there's one thing I'm comfortable saying about 2026, it's that this year isn't going to be smooth sailing. Markets are already jumpy, headlines are dramatic, and every inflation print or Fed comment seems to set off a chain reaction. But when you zoom out and look at what's actually happening underneath all that noise, the foundation is a lot stronger than the day-to-day swings suggest. That's why I see 2026 as a year that may feel messy in the moment but ends up rewarding the investors who stay calm, stay invested, and use the dips to their advantage.

Most of the major research shops aren't calling for recession this year. In fact, they're leaning the other way. Goldman Sachs is looking for global GDP growth around 2.8%, with the U.S. likely doing even better. J.P. Morgan describes the setup as "resilient global growth," driven by healthy balance sheets, ongoing AI investment, and fiscal conditions that are still supportive. Fidelity sees signs of economic reacceleration even with inflation being sticky. None of that sounds like an economy on the brink. It sounds like an economy that's still moving forward, just not in a straight line.

And that's really the story of 2026: the growth outlook is solid, but the path is going to be choppy. Central banks are easing at different speeds, which means markets are constantly recalibrating expectations. Some sectors are priced hot, so any earnings miss or shift in rate expectations gets magnified. AI continues to create huge performance gaps between companies that are plugged into the trend and those that aren't, which leads to sudden rotations. Add in the usual mix of policy noise, tariff talk, and geopolitics, and you get a market that moves fast even when the fundamentals haven't changed.

## The Way I See It

The fundamentals do matter, and right now they're still pointing in the right direction. Earnings are growing across most major regions, and the drivers of that growth are real. AI isn't just a story anymore — companies are spending, productivity is improving, and the benefits are showing up in the numbers. Corporate balance sheets are in good shape, with manageable debt and plenty of cash. Households are holding up as well, supported by wage growth and still-solid savings. When you put all of that together, you don't get a picture of fragility. You get a picture of an economy that can absorb shocks and keep moving.

Monetary policy is shifting too. The Fed is expected to cut rates modestly this year, not because the economy is falling apart, but because inflation has cooled enough to give them room. That's a very different dynamic from past cycles where cuts were a sign of distress. Here, it's more like the Fed is easing off the brake rather than slamming on the gas. That kind of environment tends to support markets, even if it doesn't eliminate volatility.

And this is where the conversation gets interesting, because if the fundamentals are intact and the volatility is mostly sentiment-driven, then the pullbacks we get this year aren't red flags. They're opportunities. And history backs that up in a big way.

When the S&P 500 has dropped at least 10% outside of a recession, the average one-year return from that point has been somewhere in the +15% to +20% range. Stretch that out to three years and you're looking at +35% to +45%. That pattern has held for decades. The key is that the economy is still growing — which is exactly the setup most research houses expect for 2026.

You can see this play out in real moments investors still remember. In 2011, when the U.S. lost its AAA credit rating and markets fell nearly 19%, the one-year rebound from the bottom was about +32%, and the three-year return was roughly +67%. In late 2018, when markets dropped almost 20% on Fed tightening fears, the one-year rebound was around +37%. Even the extreme example — the COVID crash in 2020 — shows the same pattern: a 34% drop followed by a roughly +75% rebound over the next year.

And here's the stat that always lands: over the last 20 years, if you missed just the 10 best days in the market, your return was cut by more than half. And six of those best days happened within two weeks of the worst days. In other words, the rebound tends to show up right next to the panic. That's why trying to time volatility almost always backfires.

So when I look at 2026, a year where the economy is still growing, earnings are still expanding, and the Fed is shifting from restrictive to neutral, I see a setup where the volatility is uncomfortable but not unhealthy. It's the kind of environment where staying invested matters, where rebalancing matters, and where adding to quality mutual funds during the dips can make a real difference by year-end.

Of course risks exist. A sharper downturn in the labor market, a surprise jump in inflation, or a major geopolitical shock could change the picture. But those aren't the base-case scenarios right now. The more likely outcome is that the economy keeps grinding forward, earnings keep improving, and markets swing around before ultimately ending the year higher.

For KPW clients, the message is simple: don't let the noise push you off your plan. Volatility isn't a sign that something is broken — it's just the market adjusting to a world that's moving quickly. If the fundamentals continue to hold, the uncomfortable moments this year may end up being the moments that offer the best long-term value.



# Lifestyle Planning Solutions

by Ryan Simone, CFP, CLU, CHS



You may have heard more discussion lately about the “late stage” of the economic cycle. Both Canada and the U.S. appear to be in this later phase, where growth slows, inflation cools, and central banks begin shifting toward interest-rate cuts. But the most important question is: What does this mean for your financial plan? In this month’s article, I will break things down in clear and practical terms.

Despite Prime Minister Carney’s speech about Canada breaking away from the United States, our two economies will, for many more years to come, remain heavily integrated. In terms of where we are in an economic cycle, this doesn’t mean there will be a perfect match but the trend will be similar. For example, in the United States we see a slowing but resilient economy.

The U.S. economy continues to grow, though more slowly. Inflation is moderating, hiring has cooled slightly, and the Federal Reserve is preparing for the possibility of lower rates. These are all classic late-cycle signs but not indicators of an imminent recession.

North of the border, Canada is also in the late-cycle phase but appears to be feeling more strain. Higher household debt, mortgage renewals at higher rates, and softer economic growth are creating pressure for many Canadian families. Again, this doesn't necessarily point to a crisis, although I'm sure the cash flow strains on the average Canadian family might suggest otherwise, it simply reflects a mature phase of the economic cycle. And this matters for your financial plan.

Your plan is built to work through all parts of the cycle, not just the strong growth periods. In the late-cycle stage, a few key planning themes rise to the surface such as what to do about low interest rates and cash savings, the role and concentration of stocks, bonds, and different investment styles in a portfolio, the importance of risk tolerance, and debt strategies (especially during a mortgage renewal).

### **Bonds May be a Stronger Option Than Cash or GICs**

After a few years of higher interest rates, many clients still hold their fixed-income portion entirely in GICs or high interest savings accounts, while their long-term investments are almost fully in equity mutual funds and ETFs. However, with interest rates still expected to fall over time, certain types of bond investments offer attractive income today plus the potential for gains when rates decline. This is something GICs and cash cannot offer, as their return is locked in.

The late-cycle environment may open the door to introducing or increasing bond funds or actively managed balanced funds into a portfolio. Such actions can compliment or in some cases replace GICs while also providing better long-term performance than cash and still helping to manage risk.

So, if you're sitting on cash or GICs that are not tied to an immediate need, this may be a good time to review whether a portion should be shifted toward bond or balanced funds.

### **Stocks Still Play a Key Role but Leadership Narrows**

In late-cycle periods, stock markets often continue to grow, but leadership becomes more concentrated. Defensive areas (like utilities or consumer staples) may hold up better, while more aggressive areas can be more volatile. At KPW, many of our clients are invested primarily in equity mutual funds with some more defensive and others more growth-oriented. That still makes sense for long-term goals, especially retirement, but the mix matters. Ensuring the right blend between more defensive and more growth-oriented equity funds can help your portfolio stay resilient without abandoning long-term growth.

## **Understanding Your Risk Profile Helps Set Expectations**

Your risk profile is a way of describing how much risk you can comfortably take with your investments, based on such things as your time horizon (when you'll need the money), your financial situation (income, savings, debt, other assets), and your emotional comfort with market ups and downs. Many of our own clients are in a financial position that suggests they can invest in medium-high or high-risk mutual funds, but for behavioral and emotional reasons prefer to stay in the medium or low-medium risk range. It's really a matter of taking into consideration both your financial capacity and your financial attitude.

In a late-cycle environment, when growth is slowing and markets can become choppy, your risk profile becomes especially important. For example, if you are more conservative, it may make sense to keep a meaningful portion in balanced or defensive equity funds. Consider shifting some cash or GICs into bond or balanced funds to seek better long-term returns without moving fully into aggressive equities. If you are balanced, your focus is often on maintaining a mix of equity mutual funds and some bond or balanced exposure. As a balanced investor, the late cycle could be used as an opportunity to fine-tune, not overhaul, a portfolio. If you are growth-oriented, you may still stay predominantly in equity mutual funds. However, adding bonds through actively managed balanced funds would add stability, especially important if you're approaching major goals like retirement, a home purchase, or education funding.

Your risk profile isn't about timing the market. It's about building a portfolio that not only supports your Life Plan, but also a portfolio you can stick with, through good markets, bad markets, and everything in between.

## **Avoiding "Cash Drag" Matters More in the Later-Stages of the Market Cycle**

With interest rates expected to decline over time, holding too much cash can limit long-term returns, even if it feels safe. It exposes our money to the greatest risk of all: inflation, the silent killer. A review of your cash and GIC holdings, in light of your risk profile, can help ensure you aren't missing out on opportunities, especially as the economy shifts toward lower rates.

## **Mortgage Renewals Need Extra Attention**

For Canadian households, mortgage renewals are an increasingly important planning factor. Rising payments can affect cash flow, retirement savings, or investment capacity. They can put strain on a household, and if not properly factored in, they eat into important savings needed to fund the baseline lifestyle. At KPW, we work with our clients to model how your renewal affects your finances and ensure it's fully incorporated into your long-term plan. Sometimes, adjusting your investment mix or savings plan can help offset higher borrowing costs.

When we create a financial plan, we are doing so in a way that ensures it is built for all market environments. Something as simple as forecasting a reasonable rate of return means that your plan already accounts for the fact that the economy goes through cycles. For example, an equity mutual fund portfolio can reasonably expect to earn 6% to 8% compounded over time. This may seem low when the last 3 to 5 years have produced double digit returns. But it is easy to forget that significant and prolonged drawdowns do happen, and they are very good at bringing down a portfolio's compound return since inception. As a Certified Financial Planner, I am sent FP Canada's updated planning assumptions guidelines each year. And each year, we are told that an aggressive, equity focused growth portfolio should have a return assumption of around 7.5%. This is a far cry from the 14%-20% compound return I've heard about from some influencers.

So, if we are in the late-stage of the economic cycle, what should you do now? Well, you don't need to make sudden changes. But this is a great time to review your risk profile and make sure it still reflects who you are today. And I really hope you take this point seriously. Things look good right now, money is being made each year, markets are hitting new highs, and I'm noticing some eagerness the last few years to increase investment risk. I've been managing money long enough to recognize this as a sign that things have gotten a bit "too hot". In any case, it's a good time to revisit your comfort with risk and market ups and downs and reflect on how you would feel about more volatility.

Other things you'll want to do in a late-market cycle is look at your cash and GIC positions and consider whether bond or balanced funds make sense for a portion of your fixed-income holdings. Also, confirm that your investments still match your long-term goals and can meet your baseline lifestyle needs. If you'd like to walk through what this late-cycle environment means for your personal situation, and whether your current risk profile and investment mix are still the right fit, KPW is here to help.



# Wealth & Wisdom

By Kristina De Souza, CFP, CFDS, RNS

## HOW A.I. IS SHAPING THE FUTURE OF FINANCIAL PLANNING



Artificial intelligence is becoming a bigger part of daily life for many Canadians, especially when it comes to managing money. People often use AI features built into their banking and budgeting apps without even thinking about it, which makes the technology feel both familiar and surprisingly helpful.

These tools can sort spending, watch for unusual activity, and answer simple financial questions almost instantly, which makes daily money management easier. As the country continues shifting toward digital banking, many appreciate having tools that work whenever they need them.

With rising living costs and financial pressure affecting so many households, having access to quick and reliable information can feel reassuring. At the same time, these tools still only understand data, not the personal values and emotions behind financial decisions. This limitation becomes clear when people need advice that goes beyond facts and numbers.

Even with these advances, AI cannot replace the support and guidance of a financial planner. Planning for the future involves far more than tracking transactions or organizing a budget, because it requires a deep understanding of a person's goals, relationships, values, and long-term priorities.

Many Canadians face increasing financial complexity as costs rise and traditional pension plans become less common, and this complexity only grows for high-net-worth individuals and families. Their financial lives often include business ownership, multi-property real estate, trusts, intergenerational wealth planning, and sophisticated tax strategies that AI cannot fully interpret or contextualize.

A financial planner can help sort through these competing priorities and provide clear direction when life feels uncertain or overwhelming, whether it involves everyday cash flow concerns or larger questions about legacy and wealth transfer. They can ask thoughtful questions, help people and families weigh options, and guide them toward decisions that protect and strengthen their long-term goals. While AI may offer suggestions based on data, it cannot provide the reassurance, empathy, or nuanced perspective that comes from a real conversation with a trusted professional.

AI is becoming more commonly used at a time when the financial landscape is changing quickly. High household debt, stricter lending rules, and affordability challenges mean many Canadians are making harder financial decisions than ever before.

Banks and fintech companies now rely on AI for tasks like fraud detection and credit assessments, which can speed up processes and catch problems earlier. For consumers, this can mean more personalized digital tools and faster service, which many people appreciate. Still, even with these improvements, many remain unsure about relying on AI for significant financial decisions that could affect their future. This uncertainty is understandable because people want to feel confident that their decisions are based on more than algorithms. A financial planner can help interpret AI generated information and put it into context, making it easier to apply to real life situations.

More and more Canadians are turning to AI because financial stress is increasing across the country. Surveys show that many people, especially younger adults, already use AI for budgeting, saving, or exploring investment ideas. These tools can make money management feel more manageable by offering reminders, insights, and easy to understand information. Even so, turning this information into realistic long-term plans still requires human guidance. People often need help understanding how short-term habits affect long term outcomes, and how to adjust their plans when life changes unexpectedly.

A financial planner can help build a strategy that feels achievable and grounded in real life. AI may offer data, but planners help people apply that data in a meaningful way.

AI is becoming a helpful partner for many Canadians, offering speed, organization, and insights that can make financial planning easier. It can assist with everyday tasks and help people stay consistent with their financial habits, which is especially valuable during a time of rising costs and economic uncertainty.

However, money will always be tied to emotions, family decisions, and personal goals that require more than an algorithm to understand.

Financial planners bring empathy, experience, and guidance that help people feel supported and confident.

When AI and human expertise work together, people get the convenience of technology and the reassurance of thoughtful personal advice. This combination creates a more balanced and effective approach to managing finances. It also helps ensure that decisions are not only informed but truly aligned with what people want.



*“People believe that success is only about winning trophies. That’s not true. It’s about building something that lasts.” – Arsène Wenger*

*While I am a sports fan, I don’t follow football closely. But like many people, I spent part of Sunday watching the Super Bowl. What stood out to me was not only the excitement of the game, but how quickly afterwards the result became an anchor for broader conclusions about the season, even though a single game says very little about the overall success of the system and what may lie ahead. Watching the reactions unfold in real time made me think about how often the same habit appears in investing, where short stretches of performance can drive narratives that are then used to explain longer-term decisions and strategies.*

Investors, like sports fans, are drawn to outcomes that are easy to observe and easy to summarize. Recent returns, like recent wins and losses, feel concrete and informative because they arrive attached with numbers, rankings, and commentary that imply clarity.

The temptation is to treat those outcomes as direct evidence of whether a plan is working. Long-term decision-making however, whether in sports or investing, usually requires a different perspective. The relevant question is not whether the latest result was good or bad, but whether the underlying structure is still capable of producing competitive outcomes over time while weathering periods of disappointment.

The early portion of the 2019 baseball season provides a useful illustration. The Washington Nationals opened that year with an abysmal record that quickly fueled calls for major changes. The reaction treated early results as evidence that the organization's championship plans had failed. Upper management, however, did not respond as though a few weeks of games had revealed something definitive about the roster or the approach. Instead, they stuck with their plan, and over the remaining months performance improved dramatically, culminating in a World Series championship.

These framing biases also occur over longer horizons, particularly when calendar-year results underperform. The 2024 Toronto Blue Jays season highlights this dynamic. The years leading into 2024 had been strong, and the organization entered that season with solid momentum. As many of us remember (and likely want to forget), the 2024 season saw the Jays finish in last place, prompting a widespread narrative of stagnation, failed strategies, and calls for major team overhauls. The Jays' leadership, confident in their strategy, instead opted for strategic refinement rather than outright abandonment. Now, on the heels of a strong championship rebound in 2025 and ahead of a much anticipated 2026 season, the same 2024 result reads differently—a minor setback in an otherwise steady upward trajectory.

Portfolios are often judged in a similar way. A weak year can feel like failure the same way that a strong year can feel like success. But that framing can obscure what really matters: that the portfolio is built to serve the investor's life plan. When attention centers instead on short-term performance, evaluation shifts toward explaining temporary deviations from long-term trends, and disciplined strategy is supplanted with impulsive decision-making.

As the effects of those decisions compound over time, interpretation often shifts again, from reassessing a weak period to questioning whether recovery is possible at all. The hardest investing judgments tend to arise over long horizons, when underperformance lasts long enough to feel permanent. In portfolio terms, this is the point at which patience erodes, entire sectors are written off, and strategies are abandoned not because conditions cannot change, but because disappointment has persisted long enough to re-shape expectations. While extended downturns can reflect real challenges, markets also have a history of cycles, repricing, and adaptation, providing opportunities for enhancement of long-term plans.

The recent trajectory of the New England Patriots illustrates this well. After a long period of dominance, the team experienced multiple disappointing seasons marked by an aging system, considerable organizational turnover both on and off the field, and a far more competitive environment than what had traditionally been. The length of that down stretch made recovery seem like a distant hope, and fueled the view that past success was no longer relevant to the future of the organization. The return to the Super Bowl last week did not rewrite what had happened in the lean years, but it did change how those years were viewed. What many had treated as clear evidence of terminal decline came to look more like a traditional rebuilding phase that provided the opportunity to reset expectations, reallocate resources, and develop a more competitive approach.

# Navigating Ontario's Legal Landscape



Estate planning has always required care and intention, but for many modern families, the process has become significantly more complex. Blended households, second marriages, children with differing levels of involvement in a family business, and significant intergenerational wealth all create challenges that require thoughtful planning under Ontario law. These situations are not only emotionally delicate — they also intersect with specific legal rules that can dramatically affect how an estate is ultimately distributed.

One of the most common complexities arises in blended families. In Ontario, a surviving spouse has powerful rights under the Family Law Act (FLA). Even if a will leaves the spouse a specific bequest, the spouse may choose instead to make an FLA election and claim an equalization payment, similar to what they would receive on separation. This can override the will entirely. For families where the intention is to provide for a new spouse while preserving assets for children from a prior relationship, this can create unintended outcomes. A well-structured spousal trust, permitted under the Income Tax Act and recognized under Ontario estate law, can provide the surviving spouse with income and security for life while ensuring that the capital ultimately passes to the children.

Family businesses introduce another layer of complexity. When one or two children are active in the business and others are not, leaving equal shares to all children may feel fair but can create operational and financial strain. Ontario law allows for the use of estate freezes, dual-class share structures, and inter vivos trusts to separate control from value. An estate freeze, for example, can lock in the value of the parents' shares while allowing future growth to accrue to the children who are active in the business. The non-active children can be equalized through insurance, corporate reorganization, or other assets.

Without these tools, the business may be forced into a liquidity crisis or even a sale simply to satisfy equal distributions under the will.

Another scenario we frequently encounter involves children with very different financial circumstances. Ontario's Succession Law Reform Act (SLRA) gives parents broad discretion in how they distribute their estate, but unequal distributions can create emotional tension. Trusts with staggered distributions, discretionary trusts for vulnerable beneficiaries, or equalization through life insurance can help parents support a child who needs more assistance without creating resentment or jeopardizing family harmony. The SLRA also governs dependent support claims, which can arise if a child or spouse was financially dependent on the deceased. Proper planning can reduce the risk of litigation and ensure that the estate is distributed according to the parent's intentions.

Even families without businesses or blended relationships face unique challenges. Ontario's Estate Administration Tax (EAT) — commonly known as probate tax — applies to assets governed by a will that requires probate. For families with significant wealth, the use of multiple wills, a strategy validated by Ontario courts (notably in *Granovsky Estate v. Ontario*), can reduce probate tax by separating corporate assets or private company shares into a secondary will that does not require probate. This is particularly relevant for business owners, professionals with professional corporations, and families with complex asset structures.

Cottages and vacation properties present their own issues. Shared ownership among siblings can lead to disputes over maintenance, usage, and buyout rights. Ontario law allows for co-ownership agreements, cottage trusts, and right-of-first-refusal provisions to help preserve family harmony. Without these structures, a cottage may become a source of conflict rather than a cherished legacy.

What all these situations have in common is the need for proactive, intentional planning. A will is not simply a document that distributes assets — it is a legal roadmap that reflects a family's values, relationships, and long-term vision. The more complex the family structure, the more important it becomes to address these issues openly and with the right legal tools.

At KPW, we encourage clients to revisit their estate plans regularly, especially after major life events such as remarriage, the sale or expansion of a business, or significant changes in a child's circumstances. Ontario's legal framework offers powerful tools to protect your intentions, but they must be used thoughtfully and in coordination with your broader financial plan.

Estate planning may feel daunting, but with the right guidance, even the most complex family situations can be navigated with clarity and confidence. If you would like to review your current plan or explore strategies tailored to your family's unique dynamics, our team is always here to help.



## Structure First, Strategy Second

by Sergio Simone

*Why effective tax planning is built long before year-end, and why it rarely draws attention*

For many people, tax planning begins when the calendar turns and deadlines come into focus. By that point, however, most of the decisions that determine the eventual tax outcome have already been made. Year-end tax planning often feels urgent, but in reality it is usually about managing consequences rather than designing results.

The most effective tax planning is not a seasonal exercise. It is built quietly over time through structure, discipline, and a clear understanding of how income is earned, taxed, and controlled. When those elements are in place, tax season tends to arrive without drama — which is often the best indication that the planning has worked.

One of the most common misunderstandings is the belief that tax planning is primarily about tactics: finding deductions, deferring income, or making last-minute adjustments. While these tools have their place, they tend to operate at the margins. In contrast, the biggest tax outcomes are shaped by decisions made much earlier — how assets are owned, how income is characterized, and where flexibility exists.

This is where structure matters more than strategy. Investment strategy determines what you own; structure determines how the returns from those investments are taxed. Whether income is earned personally or corporately, whether returns are received as interest, dividends, capital gains, or return of capital, and whether assets are held inside registered or non-registered accounts: all have long-term tax consequences. Once these structures are established, they quietly influence outcomes year after year, often with far greater impact than any single investment decision.

Good structure also creates something that is frequently undervalued: control. Control over timing, control over income flows, and control over when taxes are triggered. In many cases, having the ability to choose when tax is paid is more valuable than reducing the rate at which it is paid. Flexibility allows decisions to be made deliberately rather than reactively, particularly during periods of market volatility or changing personal circumstances.

This leads to an important distinction between tax planning and tax avoidance. Tax planning works within the rules, using available structures and allowances intentionally and conservatively. Tax avoidance, on the other hand, often relies on aggressive interpretations, complex arrangements, or strategies that depend on future outcomes aligning perfectly. While these approaches may promise short-term benefits, they tend to introduce fragility into an otherwise solid plan.

Over time, conservative planning tends to outperform aggressive tactics — not necessarily in headline savings, but in durability. Plans that are built to withstand changes in tax policy, market conditions, and personal circumstances offer a form of return that rarely shows up on an investment statement: peace of mind.

The quiet advantage of good tax planning is that it does not announce itself. There are no dramatic last-minute moves, no scrambling to undo decisions, and no reliance on perfect timing. Instead, there is clarity. Cash flows behave as expected. Taxes are manageable and predictable. Decisions are made from a position of choice rather than necessity.

As we move into tax planning season, this is an ideal time not to look for shortcuts, but to step back and review the underlying structure of your financial plan. Tax season should confirm that your planning is working — not expose gaps that could have been addressed earlier.

At KPW, we view tax planning as an ongoing discipline, closely integrated with investment strategy, estate planning, and long-term objectives. When structure is right, strategy does not have to work as hard. And when planning is done properly, the most noticeable feature is often how unremarkable the process feels.

If you would like to review your current structure or discuss how to better align tax planning with your broader financial goals, our team is always here to help.

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