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Personal Newsletter from Nicole Deters, Harbourfront Wealth Management – Gilman Deters Private Wealth

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Dealing With Uncertainty

As the central banks continue to raise rates in their fight to curb inflation, many observers have pointed to the current outlook for the economy and financial markets as uncertain: Did the central banks wait too long to control inflation? Is a full-blown recession imminent?

Uncertainties tend to raise fears, which can be a driving factor of short-term market behaviour. It is therefore not surprising that the markets have been extremely volatile. Today, fear appears to be the dominant emotion governing prices in equity markets. Just as excess exuberance can cause prices to overshoot their underlying values during bullish times, pessimism can drive price declines during more bearish times.

It may be difficult to put a positive spin on today's situation. Over the summer, there were promising signs that inflation was slowing here at home. However, inflation remains persistent, supporting the continuing bearish sentiment that aggressive rate hikes, arguably needed to curb high inflation, will further slow economies, put downside risk on equity markets and avert a soft landing. It's no wonder that many of us feel as though we are already in recession¹ — the current narrative, alongside increasing household expenditures, a higher cost of borrowing and stock market declines, certainly hasn't helped to support optimism.

Whether or not we avoid a recession remains to be seen, but it's worthwhile to remember that downturns are a normal part of the economic cycle. Moreover, the stock market and the economy don't always move the same way at the same time, and predicting how the markets react to recessions is difficult, if not impossible. A recent study looked back at recessions in the U.S. since 1945, suggesting that the S&P 500 Index actually rose an average of one percent across all recessionary periods. And, in almost every recession, the markets began their climb well before its end.²

Uncertainties will always be with us and some of the most successful long-term investors are adept at separating their emotions from investment decisions. This is not easy to do, but there are techniques and products available that can help. Systematic investing can limit the urge to otherwise succumb to market timing. Some look to managed products to put buy-sell decisions on the regular watch of others. We also manage risks to help cope with the unavoidable volatility. Diversification continues to be a proven way to increase stability and lower risk by spreading assets across different securities, sectors and asset classes, among others. Those who consider high quality investments will also worry less about enduring values during uncertain times, secure in the knowledge that any price setbacks should be temporary.

This period of economic uncertainty is expected to continue. Yet, economies and modern capital markets have always adjusted and progressed over time. This time is no different. The investing journey is a long one, filled with both ups and downs, and there may be merit in never underestimating our ability to continue moving forward, despite the uncertainties.

1. <https://leger360.com/surveys/legers-north-american-tracker-july-12-2022/>; 2. www.forbes.com/sites/sergeiklebnikov/2022/06/02/heres-how-the-stock-market-performs-during-economic-recessions/

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- Thinking of Escaping the Canadian Winter?
- The Importance of a Financial Inventory
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Thinking of Escaping the Canadian Winter?

For the past two winters, many snowbirds have been forced to hibernate at home. With travel now accessible, some are looking to resume their migration south to escape the cold. If this is within your plan, consider the potential implications.

Leaving for Extended Periods? Beware of Tax Issues

If you leave Canada for extended periods, a significant consideration may be the potential tax implications, both in Canada and your chosen destination. Canadian income tax obligations are based on your residency status, which is determined on a case-by-case basis. This can be affected by factors such as the amount of time spent in Canada, residential ties (i.e., property owned), purpose for your time abroad and your ties abroad. Being a Canadian non-resident for tax purposes may still require you to file a Canadian income tax return and pay taxes. A non-resident withholding tax of 25 percent may also apply to certain income received, such as dividends or pension payments.

If you are deemed to be a resident of a foreign country, you may be subject to that country's tax rules. For example, the U.S. Internal Revenue Service (IRS) uses the "substantial presence test" to determine whether an individual is considered a U.S. resident for tax purposes, a formula using the days spent in the U.S. in the current and prior two years. Qualifying as a U.S. resident for tax purposes can have tax consequences, such as subjecting worldwide income to U.S. taxation or exposing Canadians to the U.S. estate tax at death.

Other Financial Implications

Beyond the potential tax issues, there may be other financial implications. Although the rules vary by province, provincial medical coverage may become invalid as a result of extended periods spent out of province. Even if coverage remains valid, certain services received abroad may not be covered by provincial healthcare plans, so having adequate private coverage should be a consideration.

Your government benefits may be affected by your residency status. For example, Old Age Security (OAS) and Canada/Quebec Pension Plan (CPP/QPP) benefits may be subject to a non-resident tax of

25 percent (unless reduced/exempted by a tax treaty between Canada and the country of residence). The value of OAS payments is impacted by how long you have lived in Canada after age 18, so a non-residency status may reduce payment amounts. For Tax-Free Savings Accounts, you cannot accumulate contribution room for any year that you are a non-resident of Canada throughout the entire year and any non-resident contributions will be subject to a penalty tax.

Consider that the laws of the jurisdiction of residence at the time of death may govern how an estate will be taxed. Even if you remain a Canadian resident, if you have appointed a non-resident to administer your estate, your estate may be considered a non-resident estate and may not receive preferential tax treatment (i.e., on Canadian dividends/capital gains) or it may be subject to the tax laws of the country where the trustee resides. Power of attorney (POA) documents may also become complicated by a non-residency status. If you are appointed as POA for property but are no longer a Canadian resident, you may be limited in your actions, such as potentially not being able to give trading instructions on an account.

Seek Assistance

There may be other implications resulting from a change in residency status due to extended periods spent outside of Canada. This discussion isn't meant to be comprehensive, so please seek advice from cross-border tax and legal advisors regarding your situation.



Inflation & Interest Rates: Has Inflation Peaked?

We are in one of the most aggressive tightening cycles in more than 40 years. Are higher rates helping to curb inflation? At the time of writing, there have been positive disinflationary signals as commodities prices, notably energy, have moderated and certain pricing pressures appear to be easing.

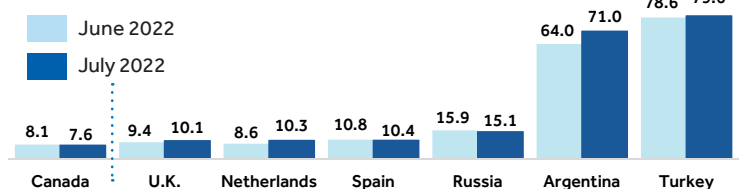
While higher inflation rates continue to put a strain on many, consider that we aren't alone. Most of the world has been troubled by inflation; countries like Turkey and Argentina have had unprecedented rates, in excess of 70 percent! Only a handful of nations, such as South Sudan and Bolivia, have been able to escape inflation. Canada continues to be in a comparatively favourable position due to our vast domestic resources production and as a net exporter of both food and energy. Many European countries suffer from high energy and food prices due to their dependence on imports and there are concerns about a worsening energy crisis over the winter months.

For investors, talk of slowing inflation is welcome because this may slow the pace of future rate hikes. Rising interest rates have been

a key driver of the volatile markets in 2022. For fixed income, the inverse relationship between bond prices and interest rates meant a significant decline in the bond markets this year. For equities, valuations often go down as the future value of cashflows is lower when a higher discount rate is used. Company profitability may also be hampered by slower economic growth.

Inflationary pressures are expected to continue, so it's too soon to say if the central banks will ease their approach. Yet, our monetary policy practices appear relatively benign when compared to others: In August, Argentina raised its key interest rate to a whopping 69.5 percent!

Top Six G20 Countries With Highest Inflation



Canada shown for comparative purposes. <https://tradingeconomics.com/country-list/inflation-rate>

Beyond Estate Planning: The Importance of a Financial Inventory

If an unexpected event were to happen, would you, or others, be able to find important documents to handle your finances?

A financial inventory is a list of all of your financial documents and other important financial information. While we often suggest this be created as part of an estate plan, there may be other situations in which having this inventory can be invaluable — in the event of damage to your home, such as a fire, flood or natural disaster, divorce or separation, incapacity or illness of you or your spouse/partner or theft.

The Benefits: A Big Picture View...and No Lost Funds!

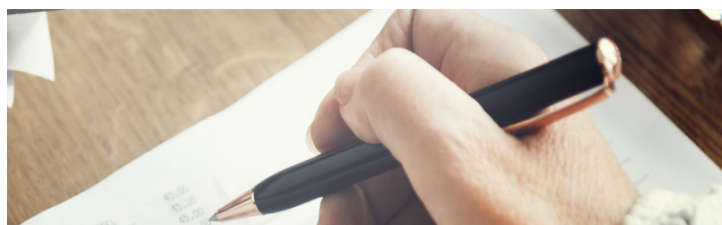
A financial inventory is not only important to ensure continuity in managing your finances in the event of unforeseen circumstances, but it can also provide a big picture view of your financial accounts and your overall financial situation. It should be reviewed periodically and updated to account for changes, including major life events.

Another reason why this can be important? By keeping track of your financial documents, there is a better chance that your assets will not be lost or forgotten. The latest reports suggest that there are \$888 million in unclaimed balances held by the Bank of Canada and the Canada Revenue Agency has around 7.6 million uncashed cheques with a total value of around \$1 billion.¹

Creating Your Financial Inventory

Putting together the initial inventory can be time consuming, but once it is created it can more easily be maintained. You will need to gather information and documentation about all of your finances. In the process, you may also determine that there are areas that can be streamlined to simplify your finances, such as consolidating or eliminating accounts.

The financial inventory should include all assets and debts. Assets



include savings, chequing, brokerage and investment accounts, retirement and education savings accounts, real estate holdings and insurance policies (health, home, life, car, disability and long-term care). Debts may include credit card accounts, mortgage accounts and other personal loans. The inventory should also include legal documents such as a will, trusts and power of attorney documents, as well as titles, deeds and business documents. Any valuable property, such as artwork or jewelry, should be documented. Finally, the list should include the contact details of professionals involved in your finances, such as accountants, investment advisors and lawyers.

A detailed inventory should include contact information, account numbers, user name/password information and other account access details. Other information may be considered, such as social insurance numbers, automobile VIN/licensing details, cell phone providers and loyalty rewards programs. Given the abundance of sensitive information, you will need to ensure that this document is kept in a safe place, yet one that can be accessed by others if needed. It may also be beneficial to keep account number/password information in a separate location for greater security.

If you have yet to create an inventory and are in need of worksheets or tools to assist with this exercise, please call the office.

1. At the start of 2020. nationalpost.com/news/heres-how-to-see-if-you-have-any-of-the-888m-in-unclaimed-bank-accounts-the-bank-of-canada-is-holding; nationalpost.com/news/canada/canada-revenue-agency-1-billion-uncashed-cheques

You Asked: Should I Delay RESP Withdrawals?

With the volatile market performance in 2022, some who hold a Registered Education Savings Plan (RESP) have asked: Should I delay RESP withdrawals? Having patience is never a bad thing when it comes to investing through the inevitable cycles and for those with sufficient funds to cover short-term education needs this may be an option. However, there may be reasons not to delay withdrawing RESP funds.

Remember that educational assistance payments (EAPs) — the withdrawal of income, capital gains and grants that have accumulated in the plan — are taxable in the hands of the beneficiary. The original contributions made to the RESP are not taxable. If you are considering withdrawing EAPs, there may be benefits in doing so before year end to use a student's tax credits. Consider that the basic personal amount for the 2022 tax year is \$14,398. Assuming a federal tuition credit of \$6,700, this combined would total a federal tax credit of \$21,098, meaning that a student with no other income could potentially receive \$21,098 of EAPs in 2022 and pay no tax.

As you plan ahead to minimize the tax bill, consider that the student could carry forward the federal tuition tax credit to a future year.

However, the basic personal amount cannot be carried forward; it must be used in the current tax year. As such, you may wish to utilize this tax credit amount. As you look to optimize a family tax bill,

you should also consider that a student may transfer a maximum of \$5,000 of the current year's federal tuition amount to a parent or grandparent (or spouse/partner, or the spouse's parent/grandparent).

It May Be a Great Time To Contribute to the RESP!

For (grand)parents with young children looking to support a future education, it may be an opportune time to consider opening and/or contributing to the RESP. Over recent years, it has been difficult to find quality investments at reasonable prices, but 2022 has certainly presented greater opportunities and the RESP can benefit. Please call the office if we can assist. We continue to advocate the RESP to save for a child's education.



How Does a Recession Impact My Portfolio?

Over the summer, the U.S. reported its second successive quarter of declining GDP, which commonly defines a recession. Yet, the U.S. government pointed to economic data that suggested otherwise: strong jobs growth, robust corporate earnings and continued consumer spending. However, it prompted considerable debate about whether the U.S. had entered a recession, and if Canada would follow. Semantics aside, there is little doubt that we have entered a slowing economic period, largely due to continuing efforts by the central banks to aggressively raise rates to curb inflation.

How Do Rising Rates Affect Economies and the Markets?

Higher rates raise the cost of borrowing, which can lead consumers to spend less. While decreased demand for goods and services eases inflation, it can also impact a business' profitability. Rising rates also increase the cost for companies to borrow money, along with the cost of holding debt. Sometimes companies pass these costs along to consumers. However, if they cannot, it can potentially impact earnings and lower stock prices. As well, valuations often go down because the future value of cashflows is lower when a higher discount rate is used. With fixed income markets, as interest rates rise, bond prices generally fall. This is why we have seen both stock and bond markets struggle in 2022 as the central banks raised rates.

Is a "Soft Landing" Still Possible?

Renowned economist John Kenneth Galbraith once said, "*The only function of economic forecasting is to make astrology look respectable.*" Although likely said in jest, the point is to suggest that nobody knows with certainty how economies will perform over the near term. Economic slowdowns will occur from time to time and recessions, when they do occur, can be quite different in their length and intensity.

At the time of writing, labour markets continue to be relatively strong, with low unemployment and job vacancies. While unemployment is expected to rise as the economy slows, higher savings rates among many Canadian households may act as a buffer. Productivity has also been stable, and our economy has benefitted by being a net exporter

of resources. As such, some believe that Canada may avoid a full-blown recession.

What About My Portfolio?

The potential for a recession should never be a reason to consider curtailing investment programs. Portfolios have been positioned to weather the inevitable down periods, with a focus on quality investments, which can be expected to regain their values when better times arrive, as well as diversification and asset allocation to help reduce portfolio risk.

Consider also that the stock market and the economy don't always move the same way at the same time. History has shown that markets can begin their upward climb when economic conditions are at their worst. A look back at the last seven U.S. recessions reminds us that the S&P 500 Index has, as often as not, started its climb during the depths of a recession (chart).

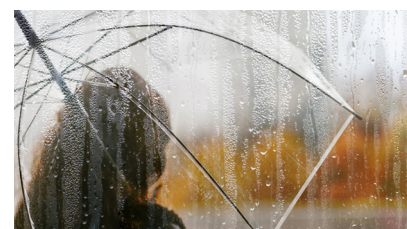
S&P 500 Returns During Recession, One and Three Years After End

U.S. Recession	During Recession	One Year After	Three Years After
Nov. '73 to Mar. '75	-17.90%	28.32%	21.99%
Jan. '80 to Jul. '80	16.14%	12.92%	55.89%
Jul. '81 to Nov. '82	14.66%	25.40%	67.24%
Jul. '90 to Mar. '91	7.64%	11.04%	29.84%
Mar. '01 to Nov. '01	-7.18%	-16.51%	8.44%
Dec. '07 to Jun. '09	-35.46%	14.43%	57.70%
Mar. '20 to Apr. '20	-1.12%	45.98%	TBD

NBER, Returns 2.0, awealthofcommonsense.com/2022/06/timing-a-recession-vs-timing-the-stock-market/

A Pullback, Then More Growth

History also reminds us that periods of retrenchment have always been followed by new growth, economic expansion and improved equity values. There is little reason to expect otherwise in this cycle. Moreover, even during the most challenging times, things can quickly change, so continue to look forward. As always, we remain here to provide support.



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