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# DARING to DISRUPT

Bespoke advice that transcends the mainstream approach to wealth management

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

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## A New Age of Uncertainty

It has been said that there are **known knowns**—the things we understand; **known unknowns**—the uncertainties we are aware of; and **unknown unknowns**—the surprises we don't realize exist until they happen.<sup>1</sup>

The start of 2025 may well be defined by the “unknown unknowns” as the markets responded to two largely unforeseen events: the emergence of an allegedly cost-competitive Chinese AI model DeepSeek, and U.S. President Trump's decision to unleash a trade war with Canada and Mexico. Uncertainty often drives short-term market behaviour. Technology stocks took a hit in January, with Nvidia losing over US\$550 billion in market capitalization, while concerns over a 25 percent tariff were acknowledged by the financial markets, as tariffs were deferred in February, implemented in March and then adjusted days later.

Times like these highlight the importance of diversification. Until now, Canada's heavy reliance on the U.S. as its primary export market has largely been overlooked: 77 percent of Canadian exports go to the U.S., while no other destination accounts for more than 5 percent. Just as diversification is important in portfolio management, it is equally critical in trade. Canada's reliance on a single trade partner makes it especially vulnerable to unexpected shifts in U.S. policy. The evolving trade war serves as a wake-up call. In this new era of rising national protectionism, there is much work to be done to strengthen Canada's economic position.

In recent years, diversification may also have taken a back seat in investing focus due to strong market gains, largely driven by a handful of dominant U.S. tech giants. However, DeepSeek's emergence serves as a reminder that no sector remains unchallenged—disruption is inevitable in any innovation cycle and technology continues to evolve at an unprecedented rate. Could this mark the beginning of AI democratization? One of the best ways to navigate uncertainty is to prepare for multiple possible outcomes, and diversification is intended to position portfolios to withstand changing environments and varying market conditions.

Similarly, the rapidly shifting rhetoric on tariffs suggests we have entered a new age of uncertainty, influenced by the current U.S. administration. As advisors, we continue to assess the evolving developments and their potential impact on portfolios—while emphasizing the importance of discipline. Unknown unknowns can tempt investors to react hastily. However, even the “known unknowns”—such as fluctuating interest rates, high inflation, economic declines or stock market drops—remain beyond the investor's control. Yet, more often than not, an investor's reactions to these uncontrollable events can have the greatest impact on long-term outcomes.

If the first months of 2025 are any indication, the next four years will bring considerable speculation about Trump's next moves. The challenge will be to look beyond the headlines. A longer-term perspective reminds us that policy changes can take time to unfold, are often subject to revision and may not always have consistent or predictable effects. Markets and economies also don't always react as expected, as we saw in the aftermath of the pandemic. While the near term is likely to bring new unknown unknowns, the underlying forces that drive progress—resilience, adaptation and innovation—will endure over time.

1. Attributed to Former U.S. Defense Secretary Donald Rumsfeld in a speech given in 2002.

# Managing Your Cash Flow for Unforeseen Times: Are You Prepared?

When it comes to wealth planning, the focus is often on investing and long-term wealth accumulation. However, having a plan for managing cash flow is also important for preparing for unforeseen times. When facing unexpected life events, such as a temporary job loss or illness, ensuring you have adequate cash flow can help prevent unnecessary financial stress and protect longer-term financial goals.

## Important for High-Net-Worth Individuals & Retirees Alike

A common misconception is that cash flow management is only important for those with limited assets. Yet, having substantial wealth does not eliminate the need for liquidity—in fact, it may mean having larger financial obligations. Effective cash flow management can help cover ongoing expenses, unexpected costs and planned commitments.

Some investors assume they can always sell investments to cover short-term expenses, but this approach comes with risks. Selling assets on short notice can disrupt long-term growth, trigger unnecessary taxes or force a sale in a market downturn. For example, withdrawing funds from a non-registered account could result in capital gains taxes, while early RRSP withdrawals not only trigger withholding taxes but also are considered taxable income. As well, once RRSP funds are withdrawn, contribution room is permanently lost.

For retirees, cash flow management may be more challenging. Many are on a fixed income, relying on a mix of pension income, government benefits or RRIF withdrawals. Without careful planning, the timing or structure of withdrawals can have unintended consequences. For example, liquidating investments to generate income could create unexpected tax obligations or impact eligibility for income-tested benefits, such as Old Age Security. Moreover, taking on debt can be burdensome on a fixed income, particularly if interest rates were to rise in the future (an unlikely scenario in the near term).

## The Value of an Emergency Fund

An emergency fund can play a valuable role, serving as the first line of defence. Typically, this is an amount equivalent to three to six months of living expenses, set aside for unexpected life events.

Beyond a traditional cash reserve, a tiered approach to liquidity

can help balance accessibility and long-term growth. This may include: i) A reserve for short-term needs, such as a high-interest savings account or cashable GICs; ii) Easily accessible investments with lower volatility, such as short-term bonds or GICs; and iii) Long-term investments to build wealth over time.



Some consider using a Tax-Free Savings Account (TFSA) as an emergency fund since withdrawals are tax free and are added back to contribution room in the following calendar year. But this approach has tradeoffs. Market downturns could reduce the value of funds at the very moment you need them. Selling investments at a loss locks in that loss, as only the withdrawn amount—not the original investment value—can be recontributed. Additionally, you forgo potential future long-term, tax-free growth (see inset below).

### Time & Compounding: How \$102,000 Grows Over Decades

*“The strongest of all warriors are these two: Time and Patience.” — Leo Tolstoy*

In times of slower growth and increasing uncertainty, don’t overlook the importance of time and patience in building future wealth. If left to compound at a five percent annual return, \$102,000 could grow to over \$1.1 million in 50 years. Why \$102,000? This is the current eligible cumulative

TFSA contribution amount. Even modest increases in the rate of return can influence long-

#### Return on \$102,000 Investment Over Time

	Annual Rate of Return		
	4.5%	5.0%	6.0%
30 Years	\$382,022	\$440,838	\$585,836
40 Years	\$593,269	\$718,079	\$1,049,143
50 Years	\$921,329	\$1,169,675	\$1,878,856

term outcomes. A one percent increase to six percent would lead to over \$1.8 million in 50 years. Time also has an impressive impact. Extending an investment period to 50 years leads to substantial outcomes as the effects of compounding are most profound in the later years. Continue to look forward!

# Tax Season Once Again: In Brief, Recent Notable Changes

As you file your 2024 income tax returns, here are a handful of recent notable changes to be aware of:

**Capital Gains Inclusion Rate** — The proposed increase to the capital gains inclusion rate\* has been deferred to January 1, 2026, from the original proposed date of June 25, 2024. The CRA is providing additional time for taxpayers reporting capital gains to meet tax filing obligations and will grant relief from late-filing penalties and interest until June 2, 2025, for individuals and until May 1, 2025, for trust filers.

**Home Office Expenses** — Form T2200 has been amended to simplify information required by employers for employees claiming expenses when working from home. The update only requires an employer to certify whether the employee worked from home more than 50 percent of the time over a period of at least four consecutive weeks.

**Charitable Donation Extension** — As a result of last year’s postal strike, draft legislation extended the deadline for 2024 charitable

donations to February 28, 2025. Individuals can choose to claim eligible donations made up to February 28, 2025, on their 2024 tax return, 2025 return or during the normal five-year carryforward period. Corporations with a taxation year ending after November 14, 2024, and before January 1, 2025, are also eligible for this extension.

**Canada Carbon Rebate (CCR) for Small Business** — While the government stated that this rebate is tax free, legislation is pending so it must be included in taxable income<sup>1</sup>. Introduced in the 2024 Federal Budget, this rebate helps eligible Canadian-Controlled Private Corporations (CCPCs) offset the federal fuel charge in certain provinces: AB, MB, NB, NL, NS, ON, PE, SK. CCPCs in other provinces/territories may be eligible if they employ people in designated provinces. Rebates were distributed in December.

\*From one-half to two-thirds on capital gains realized above \$250,000 in a year by individuals, and on all capital gains realized by corporations and most trusts; 1. <https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/corporations/business-tax-credits/canada-carbon-rebate-small-businesses.html>

## A Closer Look At the Canadian Dollar's Decline

Much has been said about the loonie's recent slump, after it fell below 68 U.S. cents in February, to a level not seen in 20 years. A mix of factors is at play: diverging monetary policies between the U.S. and Canada, with lower interest rates making the loonie less attractive to foreign investors; ongoing U.S. tariff threats; and a strong U.S. dollar.

Historically, the Canadian dollar (CAD) has moved through cycles (chart, top). From 2005 to 2014, the CAD traded at highs due to strong resource demand, surpassing parity with the U.S. dollar (USD) in 2007 and peaking at US\$1.06 in 2011. However, over the past 50 years, the loonie has averaged around US\$0.80.

A weaker CAD increases the cost of imports and reduces purchasing power, making travel to the U.S. more expensive. This has taken a toll on many snowbirds, who are increasingly selling their U.S. homes. Reports from Florida indicate the number of Canadian sellers has risen in recent years due to higher costs exacerbated by a weak loonie.

For investors, currency swings impact returns on foreign-denominated investments when converted to CAD. A notable example of currency risk occurred between 2000 and 2009—a period with parallels to today. To start the millennium, U.S. equity markets were at record highs amid the dot-com boom, while the CAD traded below 70 U.S. cents. An investor who put CAD into the S&P 500 Index in early 2000 would have experienced losses—not only from the index decline but also from CAD appreciation. Between January 2000 and December 2009, the S&P 500 declined by 24 percent, while the CAD appreciated by 38 percent, leading to a loss in CAD of 45 percent.

Historical CAD/USD Exchange Rate, 01/01/1974 to 01/31/2025



Example: Investing C\$1,000 in S&P 500 Index, 2000 to 2009

Date	S&P 500 Index	CAD/USD Exchange Rate	Investment Value (CAD)
Jan. 3, 2000	1,469.25	0.6888	\$1,000.00
Dec. 31, 2009	1,115.10	0.9508	\$549.80
<b>% Change</b>	<b>-24.10%</b>	<b>+38.04%</b>	<b>-45.02%</b>

Sources: <https://ca.investing.com/currencies/usd-cad-historical-data>; S&P data.

As advisors, one of our roles is to assess how currency movements impact investments. Over the long term, currency fluctuations tend to balance out in well-diversified portfolios, as gains in one currency can offset losses in another. Financial theory suggests that exchange rates adjust over time to equalize purchasing power across currencies and, in efficient markets, exchange rate fluctuations are typically reflected in asset prices. There are ways to mitigate currency risk directly, such as by using currency-hedged investment funds, which can minimize the impact of currency fluctuations, or Canadian Depository Receipts (CDRs), which allow investors to buy foreign stocks on Canadian exchanges in CAD to reduce exchange rate exposure. Of course, these depend on an investor's strategy and objectives.

## Spring Cleaning: Discovering Scripophily & Other Forgotten Funds

Those who grew up before the digital age may recall a time when companies issued ornate paper stock certificates. Though it may feel like a distant memory, one of the last known issuances of paper certificates wasn't too long ago, in 2013, by *The Walt Disney Company*.

If you're spring cleaning, you might come across old share certificates tucked away in an office or attic. If the company still exists—or if it was acquired or merged—the certificate may still hold value. Even if the company no longer exists, the certificate itself could be valuable. The hobby of collecting old stock certificates, known as "scripophily," continues to attract collectors, some of whom are willing to pay large sums for their historical significance or aesthetic appeal.

### Other Spring Cleaning Finds: Lost Funds & Forgotten Accounts

Here are other places where you might find forgotten funds:

**Pension Plans** — There has been recent press coverage about the substantial amount of unclaimed pension plans, with Ontario alone having \$3.6 billion in unclaimed funds by nearly 200,000 "missing" plan members.<sup>1</sup> If you've changed employers over the years, you may have forgotten about a company pension plan. Contact your former employers and speak to the plan administrator to check.

**Bank Accounts** — At last count, the Bank of Canada holds over \$1.8B in unclaimed balances,<sup>2</sup> including dormant bank accounts, term deposits and GICs with no activity for 10 years or more. Check for unclaimed funds: <https://www.unclaimedproperties.bankofcanada.ca/>

**Canada Revenue Agency (CRA) Refunds** — The latest report

suggests the CRA holds 8.9 million uncashed cheques worth over \$1.4 billion.<sup>3</sup> To check for outstanding payments, log into your CRA "My Account": [www.canada.ca/en/revenue-agency/services/uncashed-cheque.html](http://www.canada.ca/en/revenue-agency/services/uncashed-cheque.html)



### Canada Savings Bonds —

While these were discontinued in November 2017, most were issued as physical paper certificates. A report from before they were discontinued found there were \$420 million of matured—but non-redeemed—Canada Savings and Premium Bonds, suggesting many have been misplaced. If you've found an old certificate, you can take it to any financial institution to redeem it. For lost certificates, see: <https://www.unclaimedproperties.bankofcanada.ca/app/report-lost-bonds>

**Insurance Benefits** — If you believe you are an entitled beneficiary or have unclaimed life insurance benefits, contact the insurance company directly. If you're unsure of the provider, visit the OmbudService for Life & Health Insurance: <https://olhi.ca/>

**Old Stock Certificates** — If you find an old stock certificate, the Canadian Securities Administrators provides details on how to determine its value: <https://www.securities-administrators.ca/resources/additional-information/how-to-determine-the-value-of-an-old-stock-certificate/>

1. <https://www.niageing.ca/missing-members>; 2. [nationalpost.com/news/canada/how-to-know-if-you-own-any-of-the-1-8b-in-unclaimed-bank-accounts-in-canada](https://nationalpost.com/news/canada/how-to-know-if-you-own-any-of-the-1-8b-in-unclaimed-bank-accounts-in-canada); 3. [www.canada.ca/en/revenue-agency/news/2022/08/approximately-14-billion-in-uncashed-cheques-is-sitting-in-the-canada-revenue-agencys-coffers.html](https://www.canada.ca/en/revenue-agency/news/2022/08/approximately-14-billion-in-uncashed-cheques-is-sitting-in-the-canada-revenue-agencys-coffers.html)

# The Evolving Trade Tariff Situation: Is a Recession on the Horizon?

When the U.S. unleashed a trade war in January, many observers were quick to warn of the risk of recession. Given current sluggish economic growth—Canada’s GDP growth is projected at just 1.8 percent for 2025—the Bank of Canada estimated that a 25 percent tariff would reduce GDP by 3 to 4 percentage points.

President Trump campaigned extensively on using tariffs as a tool to reduce the U.S. deficit and support tax cuts. During his first term in office in 2018, Trump imposed tariffs on Canadian steel and aluminum, which remained in effect throughout the renegotiation of the USMCA.<sup>1</sup> As such, the imposition of some form of tariffs in March may not have come as a surprise.

Given this backdrop, is a recession imminent? As a reminder, a recession is often defined as two successive quarters of declining GDP. For now, Canada has some economic buffers in its favour: low interest rates, low inflation and a weak Canadian dollar, which may support exports by making them more affordable to international buyers or help offset the impact of potential tariffs on U.S. buyers. The federal government is also aware of the ramifications and, as we saw during the pandemic, may provide fiscal and monetary support to mitigate a prolonged downturn. Additionally, the tariff situation continues to evolve.

## What Should Investors Do?

Without a doubt, a sweeping tariff would put downward pressure on the economy. Yet, even if tariffs slow economic growth, investors should maintain perspective. Why?

**Markets and economies are not the same.** Seasoned investors remember that markets don’t always reflect the state of the economy. At times, economic and stock market performance can diverge. Market composition plays a role. The S&P/TSX is heavily weighted in financials (33%), energy (17%) and metals and mining (12%).<sup>2</sup> While these sectors are integral to the economy, they have an outsized influence on the index. Notably, the financial services sector, as one example, is expected to see minimal direct impact from tariffs, though an economic slowdown will still affect areas like loan loss provisions. As advisors, we continue to assess the potential

impact on investments.

**Economic cycles are normal.** While recessions have become less frequent in recent decades due to fiscal and monetary stimulus, economies, like financial markets, naturally expand and contract over time. It’s unrealistic to expect perpetual economic expansion; contractions are a natural part of the cycle and are often necessary to correct inefficiencies and spur innovation and growth.



## Recessions in Canada Over 50 Years

Date	Duration (Months)	Category 1 = Mild 5 = Severe
February 2020	3	5
October 2008	7	4
March 1990	25	4
June 1981	16	4
January 1980	9	1
December 1974	6	2

Source: CD Howe Institute “Business Cycles”

**Equity markets trend upward over the longer term.** Despite financial crises, a pandemic, supply chain disruptions, war—and even recessions—the longer-term market trend has been upward. Between 1970 and 2024, we’ve seen all of these adverse events; yet, the S&P 500 delivered positive returns in 80 percent of one-year periods and 90 percent of 10-year holding periods.<sup>3</sup> The S&P/TSX delivered positive returns in 75 percent of one-year periods and 100 percent of 10-year holding periods.<sup>4</sup>

Moreover, the economy may not always react as expected—especially in extreme scenarios. More recently, we saw this following the pandemic, which many anticipated would push us into a sustained recession. During periods of economic uncertainty, careful analysis and strategic investment selection become even more important. This is where our support as advisors shines through. For a deeper discussion, please call.

1. USMCA is the United States-Mexico-Canada (free trade) Agreement that took effect on July 1, 2020; 2. At 01/31/25: <https://www.spglobal.com/spdji/en/indices/equity/sp-tsx-composite-index/>; 3. BMO Private Wealth Insights January 31, 2025, <https://privatewealth-insights.bmo.com/en/>; 4. S&P/TSX Composite Index total return 1970 to 2024.



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