



**UPPER CANADA CAPITAL**  
PRIVATE WEALTH MANAGEMENT

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## 2022 September Team Newsletter

**From the desk of Kurt Rosentreter, CPA, CA, CFP, CLU, TEP, FMA, CIMA, FCSI, CIM**  
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### What We Did All Summer

It was a busy summer with all the team (nine people) back in the office (at 2848 Bloor St. West). All of us are vaccinated and most of us have had COVID. We have been offering unmasked meetings at home or office. We will also continue with video meetings and phone calls and are busy booking fall meetings right now. If you want to wait until 2023 before we do a full review meeting, let us know and we will diarize to contact you then.

With the stock market volatility this year and GIC rates the highest in 25 years, vacations were minimized, with some of us taking zero days off in July or August. Priorities were buying new 5-10 year bonds and GICs, nibbling into high quality stocks and ETFs that are still on sale (down -10 to -25%), positioning retired clients cash flow for the rest of 2022 and cashing out children's RESPs for tuition costs.

We use some time during summer every year to work on practice management topics. This year, we addressed staffing levels in the practice, organized team training courses to take, upgraded office technology, attended national dealer strategy meetings, ordered furniture, had three summer high school and university students job shadow the team for a month, designed new outdoor signage for our new location, completed team performance reviews, replaced two air conditioners, dealt with some illnesses, reviewed new research sources for the team to use and more.

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## **The United States Midterm Elections and the Stock Market**

Heading into the fall, one of the biggest questions out there is how will the US mid-term elections affect the market? Will Democrats lose control of both the house and senate? Would Republican control mean more grid-lock? Could more Republican control mean lower taxes and reduced regulations to boost the stock market?

The truth is (historically speaking) that it doesn't matter.

Since 1942, there have been 20 mid-term elections. During these elections, we have seen every possible combination of control over the White House, Senate and House of Representatives by Democrats and Republicans.

In each of the 20 mid-term elections, the S&P 500 (US stock market) has produced positive returns from the date of the election to June 30<sup>th</sup> of the next year.

Twelve of the 20 years have produced double digit returns; six years have been above 20%.

The lowest two performances were 2014 (2.54%) and 1946 (3.68%).

Why hasn't it mattered over the past 80 years? Well one thought is that once the election has happened, there is less political uncertainty and investors can stop worrying about who will control Washington and go back to focusing on stocks.

Now of course there is no guarantee that stocks will be up following this year's election. However, it is always good to take a moment and learn from history to try and make sense of what may come.

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If you want to see the data yourself, you can follow the link below:

[https://www.virtus.com/assets/files/5f3/observations-expectations\\_joe\\_terranova\\_march-4\\_2022\\_4574.pdf](https://www.virtus.com/assets/files/5f3/observations-expectations_joe_terranova_march-4_2022_4574.pdf)

### **From the desk of Mathew Cain, CIM**

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### **The Bank of Canada Interest Rate Increases and GIC/Bond Yields**

Our team has been busy speaking to clients about some of the best fixed income yields we've seen in years and one of the common questions we receive is "if rates will be going up, should we wait to buy GICs or bonds?"

Another common question is "the Bank of Canada raised rates materially two weeks ago, why haven't GIC rates increased in a similar fashion?"

Today, I write about and refer to specific articles that speak to these questions.

First, we are actively purchasing longer-term GICs and bonds to lock in quality yields and we are doing this now. Over the past few weeks and months, we have witnessed yields stalling in comparison to the increases we saw earlier this year. Therefore, we do not want to miss an opportunity to buy now.

GIC and bond yields are influenced by the overnight Bank of Canada rate we all hear about in the news – the same rates that impact our mortgages, lines of credits and debts. However, this overnight rate is not the only factor at play. Several other factors can influence the GIC/bond yields such as the government of Canada bond yield, existing mortgage offerings in the market and more.

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Below is a comment from Mahima Poddar, senior vice-president and group head of personal banking at Equitable Bank. She was recently interviewed in the Globe and Mail and provides some insight into her bank's role in setting GIC rates.

“GIC rates are heavily driven by the competitive market for GICs,” Ms. Poddar said. “But, generally, they’re priced based on a spread to Government of Canada bonds. They don’t actually get priced using the Bank of Canada benchmark rate.”

Another factor is how many GICs have been purchased in the past six months and how many mortgages have been sold in the same period.

Typically, banks will make a spread on the difference between the two but if there are fewer mortgages being sold due to the increase in rates, then there isn’t enough revenue coming to offset the GIC interest payable. RBC stated to BNN Bloomberg in August that they saw \$10 billion dollars in GICs purchased this year. Further to this, for the first time in several years, the big banks have better rates than the smaller trust companies.

The reason could be that these smaller banks lend to subprime customers and the number of subprime mortgages being offered is lower due to the rising rates.

To put this into perspective, even after the Bank of Canada’s historic 1.00% interest rate increase in July, GIC rates barely moved. For most smaller trust companies, the rates even came down which leads us to believe that GIC rates may have peaked.

<https://www.theglobeandmail.com/investing/markets/inside-the-market/article-rob-carrick-why-gic-rates-didnt-pop-after-the-big-jump-in-the-bocs/>

[RBC sees \\$10B influx into GICs as return rates jump - BNN Bloomberg](#)

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### **RESP Withdrawals**

It's that time of the year again. Kids are going back to school and this creates expenses that need to be paid. We have listed the most frequent answers related to RESP withdrawals.

#### **Does money from the RESP cover just tuition or can it cover other expenses?**

RESP accounts can cover every expense that is school related: tuition, books, laptops, transportation, accommodation, meals and more.

#### **What is the proof of enrollment and why it is needed?**

To take money out of the RESP for your child, he or she needs to be actively enrolled in a post-secondary program. RESP providers require a document that proves that the child is enrolled and this can be an enrollment letter (not an offer from the university or college, it does not count), or a tuition invoice or a timetable of the courses planned to attend. In every case, the document needs to have the student number, the institution name and address and the program in which the child is enrolled.

#### **I sent you a proof of enrollment months ago, why am I asked for another one?**

The child needs to be actively enrolled in a post-secondary program in order to be able to take money out of the RESP. For this reason, a recent proof of enrollment is needed (less than six months old). An enrollment letter from January is not valid anymore in September.

#### **Why are you asking about my child's income, how is that relevant?**

The money withdrawn from the RESP can come from contributions made over the years, from grants received and income earned, or a combination of both. Your contributions to the RESP are not taxable upon withdrawal, although the income earned in the plan and grant money is taxable to the child when withdrawn. If your child had a large income in one year, then it may be prudent to withdraw non-taxable cash from the RESP or vice-versa.

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We look forward to having this discussion to design the best tax-efficient strategy.

### **From the desk of Jeton Spahiu, CIM**

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### **Money Supply (M2) in Canada and the U.S., and its correlation with Inflation and Asset Prices**

The current high inflationary environment is constantly portrayed as a product of strong demand and constrained supply (“supply-side glitches”) by the Bank of Canada (BoC) and the Federal Reserve (the Fed) in the United States. One factor that we do not hear the two central banks mention as much is the excess growth of the money supply (M2) in our respective economies, which was mostly caused by their own expansionary monetary policies in year 2020 and 2021.

M2 is a measurement of the money supply that includes financial assets held mainly by households such as cash, chequing/savings deposits, and other retail instruments that are highly-liquid & easily convertible to cash.

Money is a store of value, and while it might not find its way into the economy immediately, it eventually will.

Traditionally, the expansion of the money supply has always preceded inflation and most economists argue that the central banks are in fact the main contributors of the current inflation in our countries due to their excessive increases in the money supply. Broad money in an economy provides pertinent information about future consumer spending and hence, about inflation. History also tells us that rapid expansions in money supply are usually behind most asset bubbles as too much money leads investors to increase tolerance for greater risk in search of larger returns. This was more than evident last year in 2021 when we experienced price surges in digital assets (cryptocurrencies), momentum small-cap equity securities and commodities.

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M2 money supply is normally characterized by a slow and steady growth, however the liquidity that was provided by the central banks through lower rates and quantitative easing (QE) during Covid-19 made the money supply in our two economies grow in ways never seen before. From the latest data released in June 2022, Canada's broad money supply (M2) is at a current level of \$2.36 trillion, which represents an increase of 27.7% since January 2020 or in dollar terms – an increase of \$0.57 trillion (sourced from Ycharts on 09/08/2022). To put that in perspective, just the expansion over those two years and a half is larger than all money in Canada prior to year 2003. This is an unbelievable amount of growth considering Canada's economic conditions, employment, business environment, currency strength, and trade balances.

The same case can be made for the U.S. money supply, which has grown even more than in Canada – specifically, over 40% from \$15.33 trillion at the start of January 2020 to \$21.7 trillion at the end of June 2022 (sourced from Ycharts on 07/30/2022). This is the biggest jump in the money supply in U.S. history and it surpasses other unprecedented times such as the Financial Crisis of 2007-2008, World War II, and the Great Depression.

Both central banks claim that the current elevated inflation is mostly a result of “global supply chain problems” but the fact of the matter is that inflation has always been seen as a monetary phenomenon and the money supply data above demonstrates that the two central banks made an error when forecasting inflation and were implementing an expansionary monetary policy for longer than they should have for the majority part of last year.

Source:

[https://ycharts.com/indicators/canada\\_m2\\_money\\_supply](https://ycharts.com/indicators/canada_m2_money_supply)

[https://ycharts.com/indicators/us\\_m2\\_money\\_supply](https://ycharts.com/indicators/us_m2_money_supply)

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### **How to Recover Income Tax Already Paid**

With major stock indexes being down anywhere from ten to twenty percent year-to-date it would be beneficial to assess if you can take advantage of tax-loss selling in your portfolio.

It is only applicable to investments in taxable personal (not RRSP, RESP or TFSA), corporate or trust accounts. By selling holdings with losses, you can recover income tax due or paid on capital gains either in the current year, in prior three years or carry a capital loss forward indefinitely to offset future capital gains.

If you or “an affiliated person” (your partner, a corporation controlled by you or your partner, or a trust for which you or your partner are a majority beneficiary) decide to buy the same investment later, be mindful of the superficial loss rule. It applies when you sell an investment for a loss and buy identical investment in the 30 days before or after the sale date. Under these rules, the capital loss will be denied.

### **From the desk of Frank Valicek, CFP, CIM**

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### **Disability Insurance Coverage**

Are you employed with no long term disability insurance coverage? If so, and you’ve been delaying applying, NOW is the time to apply and protect your income and future earnings potential (and may likely be your #1 asset).

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Why? Because Manulife, one of the largest and oldest insurance companies in Canada, has announced they will discontinue 4 individual, non-cancellable disability products; Proguard, Venture, ExpenseComp and Buy-sell Plus as of Sept 30, 2022. Their Living Benefit product shelf will continue to offer Critical Illness Insurance, Personal Accident Disability Insurance (PADI) and Synergy. Their disability offering through their Affinity Markets and Group Benefits programs will carry on as usual.

This announcement continues the trend of risk falling to each of us individually which is a scary thought should an unexpected accident or illness befall you. The absence of having quality LTD coverage in place when you need it most may be one of the most financially devastating scenarios you can imagine. Increased debt, talk of having to sell one's home or business, family tensions. These are discussions you should consider planning to avoid this type of situation while you still have the opportunity to do so.

**BOTTOM LINE:** if you don't have any long term disability insurance coverage you may need to ACT NOW like your life depends on it, because frankly, it just may. So let's avoid having a very difficult discussion in the future by contacting us now to get your coverage in place before it's too late. We're ready to help!

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*Kurt Rosentreter, CPA, CA, CFP, CLU, TEP, FMA, CIMA, FCSI is a national best-selling author seven books on personal finance in Canada and the past co-founder of the national wealth management practice at one of Canada's "Big Four" public accounting firms. For the last fifteen years Kurt has been a core financial course instructor for CPA Associations across Canada and also appears regularly in the national press as an expert on matters of money. Kurt is the owner of a national wealth management practice in Toronto working with professionals and business owners on all topics of personal finance. Learn more about Kurt at [www.kurtismycfo.com](http://www.kurtismycfo.com).*

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