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THE CAMPBELL CHRONICLES

A NEWSLETTER FROM
THE CAMPBELL WEALTH MANAGEMENT GROUP

THIS MONTH'S NEWS AND UPDATES:

- 2023 - Boring is Back
- Trigger Rates
- First Home Savings Account - FHSA
- Important Dates and Amounts
- Question of the Month: When the unthinkable happens

The Campbell Wealth Management Group

BMO Nesbitt Burns

HAPPY NEW YEAR

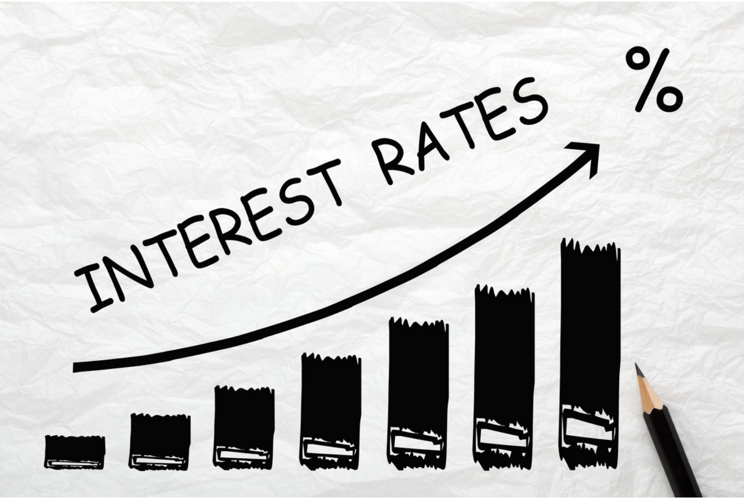
Happy New Year. I hope that 2023 is off to a good start for you. 2022 certainly went out with a fizzle. The so-called Santa Claus rally that many were anticipating did not come to fruition, and as a result, 2022 will go down as a year many will want to forget. Bonds, which I spent more time talking about last year than the last 20 years combined, finished down well into double digits, and as an asset class, had their worst year in 7 decades. The silver lining is, we don't expect a repeat of that for 2023. The Bank of Canada has already raised interest rates another 1/4% this month, but have provided a glimmer of hope, that rate hikes could be on pause for the foreseeable future. Anyone with a line of credit balance, or a variable rate mortgage is breathing a sigh of relief at those comments. Along those lines, inside this edition is an explanation on a popular term "Trigger Rate" and what that really means - you may be surprised. Also inside is more details about the new First Home Savings Account (FHSA) that is soon to be available to first time home buyers, a listing of important dates and amounts for 2023 and a look forward to see if Boring is Back this year. After some massive swings in the markets since we first heard of COVID (see Crypto, Technology stocks, Energy to name a few) are boring names back in favour? And lastly, in the question of the month, I walk through a cautionary tale when something you think will never happen, actually happens. Happy reading!

2023 - BORING IS BACK?

Ever since the early part of 2020 the markets have seen volatility return with a vengeance. Immediately after COVID was found and made public, the TSX dropped almost 40%. Since then, we have seen many starts and stops along the recovery path, with a couple of over 20% drops since then along with a handful of over 10% pullbacks, all in the last 3 years. Remember when Shopify became the largest company in Canada? It's currently trading at 30% of its all time high. Those of you that read through all my newsletters are aware of the Crypto Crash that took place last year. Bitcoin gained almost 1000% during the first 12 months of COVID, only to fall almost 50% in the second quarter of 2021, before nearly doubling again in the next few months. For everyone following along with Bitcoin still, it currently down about 66% from its peak. These wild swings have significantly impacted the markets, and definitely increased the overall volatility along the way. So as rates appear to pause their rapid ascent, and true earnings and cash flow of companies come back to the forefront, we may be in for a period where the "Boring Stocks" are back. Of course making any type of prediction is always dangerous, but our job is to position portfolio's for the most likely outcomes, at the same time, protecting against the biggest pitfalls out there.

TRIGGER RATES

The term "Trigger Rate" has become a popular term as interest rates shot up 4% during 2022. The term refers to a variable mortgage and the point when the amount of interest on the payment exceeds the amount being paid. A common misconception is that at this point, the mortgage payment is increased to ensure the mortgage principal is still being paid down. In fact, what happens, is the mortgage starts to capitalize the interest, and increase in value. So each month the mortgage remains in this state, the mortgage holder is actually going further into debt. A quick google search claims there are almost 1.9 million mortgages in Canada, and 13% of mortgages as of October 2022 have hit their trigger rate. That's almost a quarter million mortgages that are increasing in value, not going down. Since then, the Bank of Canada has raised rates another 75 basis points, so the percent of mortgages that hit their trigger rate may far exceed 13%. This is not meant to create fear, merely to shed some information on what could be a troubling statistic for existing mortgage holders if the rates stay at these levels.



FIRST HOME SAVINGS ACCOUNT (FHSA)

As announced in the 2022 Federal Budget, the account targeted to help first time buyers afford their first home is getting closer to being available. It's being touted as the best of an RRSP and a TFSA combined. As it stands now, potential first time homebuyers can open a new account, and deposit a maximum of $8,000 per year, to a lifetime maximum of $40,000. Deposits to the account act like an RRSP and provide tax relief, and upon withdrawal the money is 100% tax free and there is no repayment. Once an account is opened, it has 15 years to be used towards the purchase of your first home. If it's not, it can be rolled into your RRSP - even if you do not have any contribution room - tax free. Although the deposit maximum is set to $8,000 per year, you can catch up unused room in subsequent years that you do not contribute the maximum. Essentially, if you contribute $5,000 the first year, you can top up next year to $11,000 ($8,000 for year 2, plus the extra $3,000 from year 1). All in all, I think this is a great tool for helping people save for that first home - or anyone getting back into the housing market after being out for over 4 years.

IMPORTANT DATES AND AMOUNTS 2023

- TFSA Contribution limit has been increased to $6,500
- RRSP Maximum for 2022 tax year is $29,210 and $30,780 for 2023 tax year
- RRSP Contribution Deadline for 2022 tax year is March 1, 2023
- First Home Savings Account (FHSA) will be available in 2023 with $8,000 being the maximum contribution
- Tax Filing deadline is April 30th, but will be considered on time if postmarked by May 1st as the 30th is a Sunday

QUESTION OF THE MONTH

A real life account of the experience one of our clients had earlier this month...

Imagine being awakened by a total stranger just before mid-night in January who is telling the building is on fire, and you need to leave immediately. When you start to ask if you can grab your things, they cut you off before you get the third word of your question out with a stern "NO" and immediately usher you from the building with only your robe and slippers. This is what recently happened at a retirement home in Sarnia. Late Sunday evening the home caught fire, thankfully all 120 residents were evacuated safely, but the next few days were quite chaotic. As the building was not deemed safe, no one was allowed to enter to retrieve any personal belongings. Phones, computers, hearing aids, medication, money, health cards, credit cards, insurance details, clothes, coats, none of these items were available. Even with family in town, trying to navigate those first few days were extremely trying and stressful. So, how can you be prepared if the unthinkable actually happens? First, have a listing of all your professional contacts, we rely on our phones, but what happens when you don't have your phone? We recommend leaving a list with a close family member or friend and ensure you include your health card information and insurance details. If you don't have someone or somewhere to keep a document like that, email these items to yourself, and keep them in a folder in your email that you can access from any computer. Make sure you always know the password to get into your email, and it's not saved on a device that you may be separated from. There's always going to be something you forgot or can't access, but if you can get most of your information, it can make a stressful time a little bit easier to navigate.

Have a question you would like addressed in a future letter? Send me a note: jamie.campbell@nbpcd.com

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