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THE CAMPBELL CHRONICLES

A NEWSLETTER FROM
THE CAMPBELL WEALTH MANAGEMENT GROUP

THIS MONTH'S NEWS AND UPDATES:

- 2022 Tax Documents
- Structured Notes
- Client Surveys
- Understanding Your Statements
- Question of the Month: Why is low unemployment a bad thing?

The Campbell Wealth Management Group

BMO Nesbitt Burns

FEBRUARY UPDATE

It's always dangerous to make a statement or prediction and put it out for everyone to read. Only a month ago I wrote that maybe "Boring is Back" in reference to more traditional blue chip type stocks taking the place of tech stocks in a rebound from 2022's downward spiral. Well, since then, companies like BMO have experienced a decline of just over 5% during the middle 2 weeks of February. The stock is still up almost 7% year to date, but it lets us know that volatility hasn't gone away, and the markets are reacting with every bit of news - more on that later in the question of the month. Inflation and interest rates are still dominating the news wires, and it appears we are going to see two different paths ahead where Canada is looking to pause the interest rate hiking cycle, but our neighbours south of the border seem to be having a tougher time getting their inflation numbers in check, and are warning of more hikes.

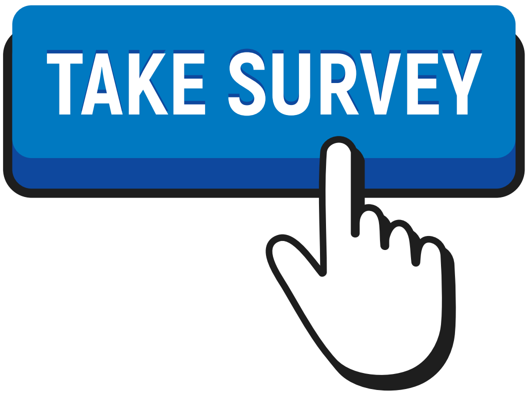
Inside this edition you will find details about the necessary tax forms for 2022 income taxes, details about structured notes, information about statements and the popular question of the month where I relive my economics courses from many years ago! Enjoy.

STRUCTURED NOTES

First let me explain what a structured note is. It's an investment vehicle that has a set maturity date and specified coupon dates, or maturity benefits, that are based upon an underlying basket of stocks. I'm going to focus on one in particular that you may see on your own statements. It's based on the Canadian Banks, is set for 7 years, although has callable options that can allow for the note to redeemed anytime after 6 months. It pays a coupon of 0.7225% monthly, which works out to 8.67% per year, so long as the Canadian Banks do not decline by more that 20% from the date of note creation (Feb 2, 2022 in this case). The purpose of the note was to provide income to the portfolio at a time when bonds were only delivering approximately 2% yields. Every month, as long as the basket of banks is not down by 20% or more, the coupon is paid to the account, much like a normal bond would. I added these as a measure to increase the yield to the portfolio, as well as to protect against what bond prices may do in a rising interest rate environment. Since that time, the index of Canadian bonds is down 9.75%. The notes have paid a total of 9.39% in cumulative coupons over that time. The notes also get valued on a daily basis, based upon a number of factors, mainly how the underlying stocks are performing. When the notes are issued, like a bond, they are issued for $100, and fluctuate thereafter. Right now, that bond issued a year ago, is trading at $87.97. At first glance, it appears it's down 12.03%, but keep in mind, it's already paid interest payments amounting to 9.39%, so it's only down a little more than 2.5% - this over the same time bonds are down almost 10%, and the banks it's tied to are down 12.82%. Lastly, there is an autocall feature. If the basket of banks is up by 5% or more on the monthly anniversary date, the note is called, you keep all the income you have been paid, and the full purchase price is returned to the account. There are many other versions and nuances that can be attributed to these products, and I am happy to discuss them at any time if you would like more information.

CLIENT SURVEY

As our valued client, your experience is of the utmost importance to us. Beginning March 6, 2023 and running until March 26, 2023 you may receive a survey invitation from BMO Private Wealth asking for your feedback about your experience with BMO Nesbitt Burns and/or BMO Private Banking, and how we are delivering on our commitment to you and the stewardship of your wealth. If you receive an invitation to participate, please kindly spare 2 to 3 minutes of your time and complete the survey. Receiving candid feedback from clients is important and will assist in providing the highest quality service and learning more about your continued needs.
To ensure you remain protected online, before completing the survey please confirm that the sender of the email invitation is BMO Customer Experience, and the email address in your invitation appears as BMOCustomerExperience@bmo.com.
For those who choose to participate, we would like to thank you in advance for taking the time to complete the survey. Should you have any questions, please give us a call.



UNDERSTANDING YOUR STATEMENT

Have you ever just taken a quick glance at your holdings, and wondered about an "Unrealized Loss" that jumps out at you? I going to continue on with the example from the note in the above article. That note today would show on your statement as an unrealized loss of $12.03 per $100 of the note, or -12.03%. However, if you read the above article, you're aware that you've been paid over 9% in interest coupons, which means if you put in $100, and have received $9.39 back, you've only got $90.61 of your investment left, and if the current value is $87.97, you are only down $2.64 - which us much different from the -12.03% your statement would show. Statements have to show the purchase price, and the current value. The income is taken into account in the account or portfolio return, but the line item on your statement will only show the difference between what you paid and what it's worth on that day. It can be a subtle difference at times, but other times, depending on how much income has been generated by a specific investment, it can be a significant difference. As always, if you have questions or concerns about your statement, always reach out for clarification.

2022 TAX DOCUMENTS

Depending on your investment holdings and account activity, you could receive a variety of tax slips that your accountant will need to prepare your annual tax return. As in previous years we will be preparing tax packages to send to your accountant as soon as we have all tax slips and supporting documents available.

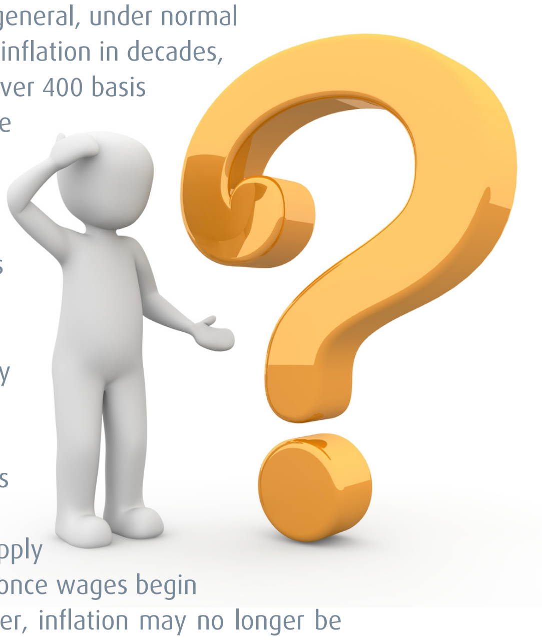
Please note that depending on your delivery preference, your tax documents will be posted on BMO Nesbitt Burns Gateway® and/or placed in the mail as soon as they are available. If you would like to register to receive your tax slips exclusively online, please let us know.

As a reminder, most Canadian individual tax returns are due on May 1, 2023 (because April 30th falls on a Sunday).

Be aware you will get some individual slips as we can't stop certain things from automatically being sent out, but once you receive the full tax package from us, you will have everything you need for the 2022 tax year. We are at the mercy of when these slips get created, and some are not ready until well into March. As soon as we can, we will have everything out to you, and your accountant if you have provided us with their information.

QUESTION OF THE MONTH

Why has the stock market reacted in a negative way when data comes out that Canada added more jobs than expected, and unemployment remains at, or near all time lows? Shouldn't that be a good thing for stocks?



Some times economics makes sense, and other times it may cause you to scratch your head. Typically low unemployment and a strong work force would be good for stocks and the economy in general, under normal circumstances. However, this is 2023, and we are experiencing our first real battle with inflation in decades, and coming off a year when the Bank of Canada took their overnight lending rates up over 400 basis points to combat inflation. With low unemployment, and hundreds of thousands of more jobs than workers, it's an employee's market. People can easily move jobs, and those that want to work, likely are working barring geographical barriers. When this happens employers may be forced to increase wages higher than they would like to attract necessary talent. While this is good for the employee, if this continues to happen across industries and sectors of the economy, those higher wages lead to higher costs of good and services, and you guessed it - higher inflation! So far, much of the inflation can be attributed to supply. The government significantly increased the supply of money with numerous programs at the onset of COVID. We then experienced world wide supply issues with shutdowns of entire countries, and with an increase in money available, and a decrease in supply, demand rises. When demand exceeds supply, prices rise. I mention this, because all of the supply chain and excess money supply can be classified as transient, or short term inflation that can be corrected by tightening the supply of money by raising interest rates, and working through supply chain issues. However, once wages begin to rise across all sectors, and those added costs get passed along to the end consumer, inflation may no longer be temporary, it begins the shift to permanent. So, although no one wants high unemployment, because that also is not good, having more jobs available than willing workers also can present a problem, and when data like that comes out, the market may react in a negative manner, as it could be foreshadowing even higher rates if inflation does not get reigned in. See mom and dad, I did pay attention in economics class!

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

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