

Investment Insights

Expect the Unexpected

It has been said that *“there are decades where nothing seems to happen and then there are weeks where decades happen.”*

This sentiment may aptly describe the start of 2025, as markets responded to two unexpected events: a new Chinese AI model, DeepSeek, positioned as a low-cost AI alternative, and U.S. President Trump’s imposition of tariffs on America’s closest allies.

For investors, these events serve as a reminder that markets are often driven by the unexpected. Sudden developments can influence short-term market behavior, and these were no exception. The news put downward pressure on technology stocks, notably a loss of over US\$550 billion in Nvidia’s market capitalization.¹ Markets also reacted to the uncertainty surrounding a 25 percent U.S. tariff—initially deferred in February, implemented in March and then adjusted just days later.

The rapidly evolving tariff situation underscores the difficulty of predicting the future by extrapolating the news of the day. As investors, we can protect our portfolios through discipline and diversification. Near-term narratives can often tempt investors to react in haste. Many factors—interest rates, inflation, economic downturns, market declines—and tariffs and trade wars—are beyond an investor’s control. However, more often than not, an investor’s emotional response to these uncontrollable events can have an even greater negative impact on longer-term outcomes. Diversification is intended to help protect portfolios from the unexpected, recognizing that markets, like the near-term outlook, can be unpredictable. In recent years, strong market performance and the dominance of a handful of technology stocks have overshadowed the focus on this key principle. One of the best ways to navigate uncertainty is to prepare for multiple possible outcomes, with portfolios that can adapt to different environments and evolving scenarios.

These events may also reflect broader shifts unfolding today. We find ourselves in an era of increasing national protectionism. The evolving tariff situation should serve as a wake-up call—Canada has much work to do to strengthen domestic productivity, economic competitiveness and national security to reduce its vulnerability. As advisors, we continue to thoughtfully assess the developments and their potential impact on portfolios. At the same time, DeepSeek’s emergence highlights the inevitable disruptions that occur in any innovation cycle, as technology continues to advance at an unprecedented rate. Could this mark the beginning of AI democratization?

Indeed, the near term will always carry uncertainties. However, if the first months of 2025 are any indication, the next four years will likely bring considerable speculation—and market reactions—about Trump’s next moves. His approach to hegemony is prone to unexpected shifts. The challenge will be to look beyond the headlines and maintain a broader perspective.

A wider lens reminds us that U.S. presidents aren’t omnipotent, and policies that seem significant today may shift tomorrow. Policy changes can also take time to fully unfold, and not all developments will have consistent or predictable effects. Consider also that economies and the markets don’t always react as expected—as we have seen in the aftermath of the pandemic. While uncertainty is sure to remain a constant, the underlying forces that drive progress—resilience, adaptation and innovation—will continue to endure over time.

<https://www.cnn.com/2025/01/27/nvidia-sheds-almost-600-billion-in-market-cap-biggest-drop-ever.html>; 2. <https://www.theglobeandmail.com/opinion/article-canada-now-is-our-time-to-be-strong-and-free/>



Doug Jones Terri Szego Richard Lawrence

To Our Clients:

For many, the tariff situation has been unsettling. We continue to assess the evolving developments and their potential impact on portfolios, recognizing that their magnitude, duration and economic implications may continue to shift.

If there is a silver lining, it may be a renewed sense of unity. At times, external threats remind us of the values we share. Recent polls suggest these include Canada’s quiet patriotism, peace, respect, inclusivity—and, in jest, beavers, toques and the letter zed. Adversity can also lay the groundwork for formative change. There is hope that this moment sparks momentum toward positive economic progress. An op-ed in the press reminds us: *“Much of Canada’s history is the story of bravely carving out a remarkable country against long odds. We can do it again.”*²

Doug, Terri and Richard

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Tax Season Again: Be Aware of Changes

Here are some recent changes relating to 2024 income tax returns.

Capital Gains Inclusion Rate — The proposed increase to the capital gains inclusion rate 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, has been deferred to January 1, 2026, from the originally proposed date of June 25, 2024. The CRA is granting interest and penalty relief until June 2, 2025, to provide additional time for individuals reporting capital gains to meet their filing obligations due to the change, and until May 1, 2025, for trust filers.

Home Office Expenses — Form T2200 has been amended to simplify the information required by employers for employees claiming expenses when working from home. The update now 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. This means that individuals can choose to claim eligible donations made up to February 28, 2025, on their 2024 personal income 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.¹ Introduced in the 2024 Federal Budget, the rebate was distributed in December to eligible Canadian-Controlled Private Corporations (CCPCs) to 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.

1. <https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/corporations/business-tax-credits/canada-carbon-rebate-small-businesses.html>

Currency Conundrums: The Impact of a Weaker Loonie

The Canadian dollar (CAD) continues to take a hit, falling to levels not seen in decades.

Much has been said about the loonie's continuing 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; U.S. tariff threats; and a strong U.S. dollar, bolstered by a relatively resilient economy south of the border.

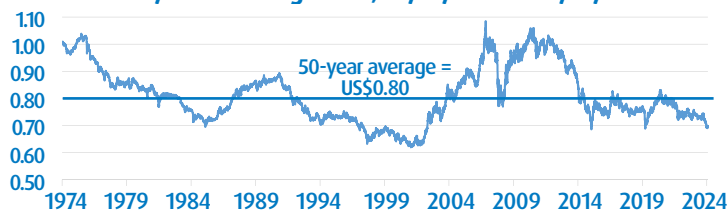
Historically, the CAD has moved through cycles (graph). Between 2005 and 2014, the CAD benefitted from strong resource demand, surpassing parity with the U.S. dollar (USD) in 2007 and peaking at US\$1.09 in November of that year. It saw further strength in 2011 during the height of the commodity boom. Over the past 50 years, the loonie has averaged around US\$0.80.

Why Does This Matter for Canadians?

The weaker loonie has been challenging for many Canadians, increasing the cost of imports and making travel to the U.S. more expensive, substantially reducing purchasing power. This has also taken a toll on many snowbirds, who are increasingly choosing to sell their U.S. homes. Recent reports suggest that in Florida, Canadians made up nearly 25 percent of foreign sellers between April 2023 and March 2024—more than double the 11 percent recorded the previous year.

For investors, currency swings impact returns on foreign-denominated investments when converted to Canadian dollars. A notable example of currency risk occurred between 2000 and 2009—a period with some parallels to today. At the start of the millennium, U.S. equity markets were at record highs amid the dot-com boom, while the CAD was trading below US\$0.70. If a Canadian investor put CADs into the S&P 500 Index in early

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



2000, they would have experienced a significant loss—not just due to the market downturn, but because of currency appreciation. Between January 2000 and December 2009, the S&P 500 declined 24.1 percent, but over that same period, the CAD appreciated by 38 percent. As a result, when converting investments back to CAD, an investor's loss would have been 45 percent—highlighting the impact of currency risk.

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

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

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—an effect sometimes referred to as a natural hedge. Financial theory suggests that exchange rates should adjust over time to equalize the purchasing power of different currencies and, in efficient markets, exchange rate fluctuations are generally reflected in asset prices.

There may be ways to mitigate currency risk more directly; however, this depends on an investor's strategy and objectives. For example, one option is using currency-hedged investment funds, which aim to minimize the impact of currency fluctuations on foreign holdings, or Canadian Depository Receipts (CDRs), which allow investors to buy foreign stocks on Canadian exchanges in CAD, reducing direct exchange rate exposure.

The TFSA: Why Are We Falling Short?

At a time when taxes are top of mind, many of us may not be making the most of this tax-free account.

There are few true “gifts” from the government, and the Tax-Free Savings Account (TFSA) is one of them. The opportunity to invest and grow funds on a tax-free basis over a lifetime should not be overlooked.

Yet, the latest statistics reveal that many high-net-worth (HNW) individuals aren't fully taking advantage of it. For HNW taxpayers with incomes over \$250,000, the 2024 TFSA statistics (representing the 2022 tax year) indicate that an average of around 35 percent of available contribution room remains unused. While many complain about high taxes, we aren't collectively maximizing this tax-advantaged account. Additionally, among HNW taxpayers, the average TFSA fair market value (FMV) remains below the cumulative contribution limit. Today, an investor who had contributed the full annual dollar amount since the TFSA's inception could have accumulated over \$145,000, assuming an annual rate of return of 5 percent.

What's causing these shortfalls? Several factors might be at play. When the TFSA was introduced in 2009, it was often misunderstood as merely a “savings account,” leading some to put funds into low-interest fixed-income investments and miss out on the growth potential. Others still view it as a short-term tool, withdrawing funds for immediate expenses rather than letting them grow. However, the opportunity cost is significant.

Spring Cleaning? Finding Lost Funds

If you're looking for motivation to start your spring cleaning, why not begin by looking for lost funds?

Over time, funds can be forgotten or misplaced—and you might be surprised by what you uncover when organizing your financial records. Here are some places where lost funds may be hiding:

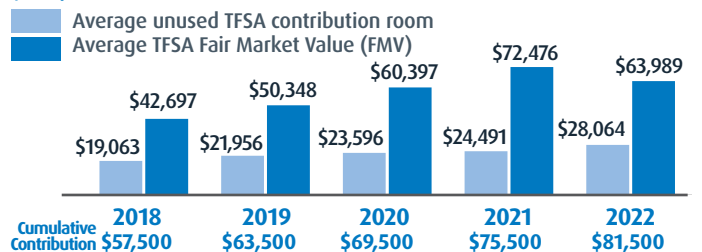
Pension Plans — The press has been recently highlighting the substantial value of unclaimed pension funds, with Ontario alone having \$3.6 billion in unclaimed funds by nearly 200,000 plan members.¹ If you've changed employers over the years, you may have an unclaimed pension plan. Contact your former employers and speak to the plan administrators.

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

Canada Revenue Agency (CRA) Refunds — The latest data suggests the CRA holds 8.9 million uncashed cheques worth over \$1.4 billion.³ Log into your CRA “My Account” to check for outstanding payments: www.canada.ca/en/revenue-agency/services/uncashed-cheque.html

Canada Savings Bonds (CSBs) — CSBs were discontinued in November 2017, but most were issued as paper certificates that may have been misplaced. Before they became obsolete, a report estimated that \$420 million in matured but non-redeemed CSBs and Canada Premium Bonds remained unclaimed. If you find an old certificate, you can redeem it at

2024 TFSA Statistics for 2022 Tax Year: Unused Room & FMV, \$250,000+ Income



<https://www.canada.ca/en/revenue-agency/programs/about-canada-revenue-agency-cra/income-statistics-gst-hst-statistics/tax-free-savings-account-statistics.html>

Consider an investor who contributes the eligible lifetime contribution limit of \$102,000 in 2025, plus \$7,000 annually for another 25 years. At a 5 percent rate of return, it could grow to over \$713,000—an amount that could be withdrawn entirely tax free! However, this relies on allowing contributions and investment gains to remain untouched, enabling long-term growth.

Another reason some investors fall short may be due to overly risky investment choices within their TFSA. This approach can be problematic for two reasons. First, if an investment realizes a substantial loss, contribution room may be permanently lost.¹ Second, there is no tax relief—unlike a non-registered account, TFSA losses cannot be claimed on an income tax return.

How about you? Are you fully maximizing your TFSA?

1. For instance, withdrawing an investment that has fallen in value locks in that loss as only the withdrawn amount—not the original investment value—can be recontributed in the following year.

any financial institution. For lost certificates, see: <https://www.unclaimedproperties.bankofcanada.ca/app/report-lost-bonds/>

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

1. <https://www.niaging.ca/missing-members>; 2. <https://nationalpost.com/news/canada/how-to-know-if-you-own-any-of-the-1-8b-in-unclaimed-bank-accounts-in-canada>; 3. <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>



Spring Cleaning: Scripphily & Old Share Certificates

Those who reminisce about the “good old days” may recall a time when companies issued ornate paper stock certificates. While a now obsolete practice in this digital age, one of the last known issuances wasn't too long ago—believed to be in 2013 by *The Walt Disney Company*.

As you spring clean, if you come across an old stock certificate tucked away in an office or attic, it may still hold value. The **Canadian Securities Administrators** provides guidance on how to determine its worth: <https://www.securities-administrators.ca/resources/additional-information/how-to-determine-the-value-of-an-old-stock-certificate/> Even if the company no longer exists, the certificate itself could be valuable. “*Scripphily*,” the hobby of collecting old stock certificates, attracts many collectors. In 2019, a signed, pre-IPO Walt Disney stock certificate reportedly sold for US\$19,000, after previously being auctioned in 2002 for US\$26,800.

Estate Planning Wisdom From the Legendary Warren Buffett

“Father Time always wins...before long, he will get around to me.” — Warren Buffett

Just months ago, Warren Buffett announced that he was donating 1,600 Berkshire Hathaway shares, valued at more than US\$1 billion, to four family foundations. The move was in keeping with his 2006 commitment to donate 99 percent of his wealth to charity. Yet, it wasn't the donation itself that captured attention. Alongside the announcement, Buffett released a memo filled with his signature wisdom, addressing mortality and the importance of getting one's affairs in order.

Here are four estate planning takeaways from Buffett's memo, echoing advice he has championed throughout his life:



1. Transparency can go a long way. Buffett encourages parents to share their Wills with their grown children while still alive. This approach allows parents to explain their decisions, address potential concerns and answer questions. *“You don't want your children asking ‘why?’...when you are no longer able to respond.”* Without these conversations, he has witnessed families driven apart after unexplained directions in a Will left beneficiaries confused and angry. In contrast, he has also seen such discussions bring families closer.

Takeaway: While it may not always be appropriate to share every detail of a Will or financial plan, having open conversations, while you are alive, can help to preserve family harmony once you are gone.

2. Estate plans—and beneficiaries' abilities to manage an estate—can change over time. Buffett reminds us that estate planning is not a static process. When his first wife passed away 21 years ago, he felt his children were not prepared to manage significant wealth. Yet, over time he has gained confidence in their ability. At age 94, Buffett now recognizes that their lifespans—at ages 71, 69, and 66—have also materially diminished. He updates his Will every couple of years and stresses the importance of simplicity.

Takeaway: Revisit your estate plan regularly, as circumstances and priorities can change (such as in Buffett's case, his beneficiaries' ability to manage an estate as they have grown and gained experience).

3. There are disadvantages to creating dynastic wealth. Buffett believes an inheritance should empower recipients without diminishing drive and purpose: *“Wealthy parents should leave their children enough so they can do anything, but not enough that they can do nothing.”*

Takeaway: An effective estate plan goes beyond transferring wealth. It can help pass along your values, or protect beneficiaries when needed. By thoughtfully planning how assets are distributed—such as through trusts, insurance or other mechanisms—you can create a legacy for future generations while fostering independence and purpose.

4. Express love while you are alive. Buffett closes his memo with heartfelt words for his children, expressing pride in their values and approach to life: *“They enjoy being comfortable financially, but they are not preoccupied with wealth. Their mother, from whom they learned these values, would be very proud of them. As am I.”*

Takeaway: There is no time like the present to let your loved ones know how much they mean to you.

For the full memo, please see: <https://www.berkshirehathaway.com/news/nov2524.pdf>

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