

Investment Insights

Riding the Exponential Wave

Fold a piece of paper in half 42 times, and—beyond intuition—its thickness would reach the moon. What begins as small, trivial steps compounds into exponential growth, which may help explain why change today feels as though it has accelerated so rapidly.

After a summer of significant gains, equity market advances have created a degree of nervousness for some investors. Indeed, the rebound has been remarkable: Since the April lows, the S&P 500 surged more than 30 percent in two months, one of the fastest rallies in recent history, and the S&P/TSX hit multiple new all-time highs. While the underlying challenges have largely not changed, this optimism wasn't entirely unfounded: economic growth has proven more resilient than expected, trade tensions have eased as new agreements are negotiated, and there's a view that central banks will cut rates should conditions weaken.

Moreover, earnings season was buoyed by strength in large tech-related earnings—a familiar theme in recent years—and largely fuelled by market enthusiasm for artificial intelligence (AI). In the first half of the year, AI-related capital spending contributed more to U.S. GDP growth than consumer spending. Few doubt AI will be an economic driver in the years to come, but adopting any new technology doesn't guarantee financial success for all early players. The questions now: Will AI live up to its transformative promise, comparable to innovations of the past like the steam engine or lightbulb? And, who will emerge as the winners?

Why Things Seem to Move So Quickly: The Exponential Curve

AI is not new—its roots go back to the 1950s with Alan Turing's "Turing Test" for machine intelligence. What's changed dramatically is the pace of progress, driven by exponential increases in computational power, vast datasets and advances in machine learning algorithms. To put it in perspective, the amount of data generated worldwide is expected to exceed 180 zettabytes in 2025. Compare that to the late 1980s, when annual data creation was measured in terabytes (1 terabyte = 0.000000001 zettabytes). Today, we find ourselves on the steep part of the exponential curve, where decades of slow, academic progress have given way to rapid, real-world breakthroughs. To use the analogy of folding a sheet of paper only 0.1 mm thick: seven folds make it notebook-thick, but 30 folds stretch 100 km into space. By 42 folds, its thickness exceeds 382,500 km—the distance to the moon! In investing, compounding works much the same way—slow at first, then powerful over time. This is why, as advisors, we often emphasize the principle: *The first rule of compounding is to never interrupt it unnecessarily.*

Where to From Here? With equities rallying from the April lows to hit all-time highs this past summer, many investors are asking: Where to from here? Indeed, the pendulum can quickly swing. Enjoy the upwave—momentum can be a powerful force that lasts longer than many expect—but remain mindful of headwinds: a slowing economy, lingering impacts of trade policy and potential volatility if expectations and optimism continue to run too far ahead.

A diversified approach can help capture innovation's upside while balancing exposure to keep portfolios resilient as conditions shift. Rebalancing along the way can lock in gains and thoughtfully redeploy capital. Investing, at its core, involves discipline, diversification and the tenacity to endure short-term uncertainty in pursuit of long-term results. These principles have served investors well through countless cycles and remain as relevant as ever in today's fast-moving markets.



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To Our Clients:

As routines shift this time of year, change may be particularly abundant. Many are gearing up for a busy season: kids back at school, others returning to the office (RTO), and some snowbirds planning alternative travel destinations. If your personal situation has shifted recently, it might be a good time to review your wealth plan.

With the school year underway, it's a timely reminder to consider education funding. Ensuring our families have the financial means to support educational priorities is more important than ever with rising costs. An investment program can be a smart way for (grand)parents or family members to provide that support and leave a lasting legacy. With the changing seasons, here's to warm markets for the cooler days ahead.

Victor, Colleen, Eva and Nicole

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Back-to-School Investing Lessons

Turn down “free” money? Consider the impact of compounding over time by frontloading the RESP and foregoing the CESG.

There are many reasons to consider a Registered Education Savings Plan (RESP) to save for a child’s future education: tax-deferred growth within the plan, income-splitting for high-net-worth families (as earnings are taxed at the child’s tax rate when eventually withdrawn) and, of course, the Canada Education Savings Grant (CESG): funds paid into the plan by the federal government as a 20 percent matching grant, to an annual maximum of \$500 (\$1,000 if unused grant room from a previous year) and a lifetime maximum of \$7,200 per beneficiary. There are no annual limits on RESP contributions; however, the lifetime limit is \$50,000.

Conventional wisdom suggests we should take advantage of the CESG; after all, it’s essentially “free” money. But is this always the best decision? One way to maximize the CESG involves contributing \$2,500 per year over 15 years to receive the full \$7,200 in grants. However, will this achieve the greatest outcome for the RESP?

Illustrative: RESP Gradual vs. Lump Sum Contribution

Year	Investor 1 – Gradual Contributions			Investor 2 – Lump Sum Contribution		
	Annual Contribution	CESG Received	RESP End Amount	Annual Contribution	CESG Received	RESP End Amount
1	\$2,500	\$500	\$3,150	\$50,000	\$500	\$53,025
2-20	\$2,500	\$6,700	\$100,855	--	--	\$133,992
Total	\$50,000	\$7,200	\$100,855	\$50,000	\$500	\$133,992

*Assumes 5 percent annual compounded growth.

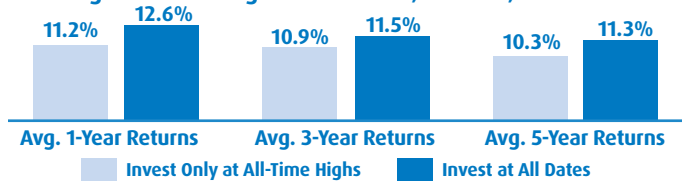
Investing After Strong Market Periods

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

Following the notable gains in both Canadian and U.S. equity markets after April’s lows, investors may feel hesitant about the prospect of putting money to work. Here are two common myths, debunked, about investing after periods of strong market performance:

Myth 1: Investing at all-time highs means substantially lower returns. While investors can benefit from the practice of buying low and selling high, perceived highs can still allow for growth. Investing only at market highs may not be as unfavourable as many believe. Since 1950, the returns from investing in the S&P 500 only at all-time highs wouldn’t be far from the average index when investing at all other dates for one-, three- and five-year periods.

Investing at All-Time Highs vs. All Dates, S&P 500, 1950 to 2024¹



To answer this question, let’s compare Investor 1, who gradually contributes and maximizes the CESG, and Investor 2, who contributes a lump sum amount and doesn’t maximize the CESG. The outcome may be surprising. Both investors are assumed to earn an annual rate of return of 5 percent. Investor 1 contributes \$2,500 each year starting in the first year of the child’s life until year 20, to a maximum contribution of \$50,000, and receives the full \$7,200 CESG grant. After 20 years, the RESP produces \$43,655 of growth, resulting in a value of \$100,855. Investor 2 contributes a lump sum of \$50,000—the full RESP limit—in the first year of the child’s life, so the RESP receives only \$500 of CESGs. Yet, the RESP grows to \$133,992 over the same period.

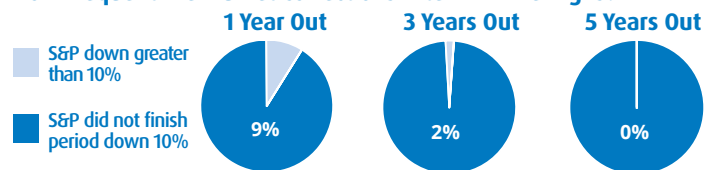


This shows the profound impact of compounding over time. Frontloading the initial contribution yields a larger outcome, even without receiving the full CESG, all else being equal. Despite lower overall contributions for Investor 2, or \$6,700 less in CESGs, the outcome is \$33,137 greater.

A Lesson for the RESP and Investing in General: Time Can Be Powerful

Of course, not many investors have \$50,000 of discretionary funds at the start of a child’s life. As such, maximizing the CESG where possible is a prudent strategy. Yet, this example illustrates why, as advisors, we often remind investors not to overlook the impact that compounding can have over time on any investment—not just the RESP. The key takeaways? The sooner you start, the more time funds have to grow and, when it comes to growth, the larger the initial investment, the better!

How Frequent Are Market Corrections After All-Time Highs?¹



Myth 2: Market corrections often follow market highs. In reality, market corrections (declines of more than 10 percent) are not especially common after all-time highs. The chart (top) shows how often the S&P has experienced such drops after over 1,250 all-time highs since 1950.

Of course, corrections are a normal part of the cycle. Markets go down just as they go up. But avoiding equities simply because they’re at record levels amounts to trying to time the next downturn. Staying invested with a long-term horizon has proven more effective. Even an investor who invested in the S&P 500 at its peak in late 1999, before the dot-com bubble burst, would still have achieved an annualized return of nearly 8 percent today.²

This isn’t to suggest that recent rapid gains will continue at a similar pace. Indeed, we find ourselves in a period where strategic security selection matters more than ever—and this is where our work as advisors shines through. Enjoy the gains of recent times, but don’t overlook the importance of time and patience in building wealth for the future.

1. <https://www.rbcgam.com/en/ca/learn-plan/investment-basics/investing-at-all-time-highs/detail>; 2. S&P 500 Total Return Index (dividends reinvested), 12/31/1999: 2,021.4; 07/31/2025: 14,020.46.

Why Tax Planning Is Ever More Important

As you plan before year-end, don't overlook the carryforward rules.

Despite rising living costs, the share of income spent on necessities has declined. In 1976, households spent around 43 percent of their income on shelter, food and clothing; today, this is around 35 percent.¹ What has risen is our tax burden. In 2025, the average Canadian family will pay 43.1 percent in taxes. Put differently, if taxes were paid upfront, the first 158 days' earnings would go entirely to the government!

Given our rising tax burden, tax planning has never been more important. As you plan for year-end, remember that the tax rules allow you to carry forward certain unused credits or deductions. Here are some tips.

Capital Losses — If you sell investments in a non-registered account for less than the original cost, the resulting capital loss can be used to offset capital gains realized during the year. If you don't have sufficient capital gains, the net capital loss can be carried back three taxation years, or carried forward indefinitely to use against net capital gains. **Tip:** Be aware of the superficial loss rules, which may deny the loss if you or an affiliated entity acquires the same security 30 days before/after the date of the loss transaction.

Registered Retirement Savings Plan (RRSP) — Unused RRSP contribution room and unused RRSP deductions can be carried forward. **Tip:** Contribute before the March 2, 2026, deadline to maximize potential tax-deferred growth. You may defer claiming the deduction to a higher-income year to offset a larger tax bill.

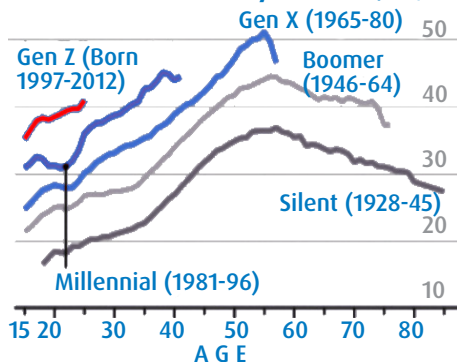
TFSA — Unused TFSA contribution room can be carried forward indefinitely. **Tip:** If you need TFSA funds, consider withdrawing before year-end. Contribution room resets itself at the start of the calendar year, so withdrawing after December 31, 2025, means the contribution room won't be available until January 1, 2027.

Younger Generations: Going to Be All Right

Despite facing one of the toughest job markets in decades and a difficult path to homeownership, Gen Z is doing just fine.

A recent *Economist* article, "Generation Z is Unprecedentedly Rich," noted that at the same age, Gen Z incomes are 50 percent higher than Boomers.¹ They're also saving better, contributing more to retirement plans than Millennials did when entering the workforce. In 2023, the median RRSP contribution for Canadians under 25 was over 20 percent higher than that

Median After-Tax Income by Generation, US\$ '000



of Millennials in 2009.² The more provocative headline, "Why Gen X is the Real Loser Generation," suggests the cohort struggling most is Gen X, stuck in the "u-bend of life," caring for both children and aging parents.

RESP — While the CESG pays an annual maximum of \$500, unused grant room can carry forward to a maximum of \$1,000 per year (\$500 current year + \$500 carryforward).

Tip: If you missed a prior year contribution, consider an annual contribution of \$5,000 to achieve the maximum grant.

How Has Our Tax Liability Changed Since 1976? Average Income Expenditure Allocation (%)²

1976		2025
20.8%	Discretionary Income	21.5%
6.8%	Clothing	2.1%
17.2%	Food	11.3%
19.0%	Shelter	22.0%
36.2%	Taxes	43.1%

First Home Savings Account (FHSA) — FHSA holders can contribute \$8,000 annually in participation room. Unused amounts can be carried forward to the following year, but only to a maximum of \$8,000 per year and subject to a lifetime limit of \$40,000. **Tip:** The FHSA closes at the end of the year of its 15th anniversary or the year after the first qualifying withdrawal. Not contributing the full \$8,000 from the onset could cause you to miss out on the lifetime limit and valuable tax-deductible benefits. Maximizing contributions early helps boost potential tax-free growth.

Charitable Donations — Eligible donations unused in the current year can be carried forward for up to five tax years. This is especially helpful for donations made to U.S. charities, which can typically only be claimed against U.S. source income earned in the year the credit is claimed. **Tip:** Donating shares "in kind" to an eligible Canadian charity allows you to receive a donation receipt for their fair market value. If the shares in a non-registered account have appreciated, this strategy can also help eliminate the capital gains tax liability.

1. <https://www.fraserinstitute.org/commentary/canadian-families-must-work-nearly-half-year-pay-taxes>; 2. <https://www.fraserinstitute.org/sites/default/files/2025-07/canadian-consumer-tax-index-2025.pdf>

Gen X incomes were only 16 percent higher than Boomers at the same age, the smallest gain of any group, likely due to a weak labour market after the Global Financial Crisis.

Still, the big picture is positive. Canadian household wealth hit a record \$17.49 trillion to end 2024, with average net worth up 30 percent from pre-pandemic levels to \$1,026,205. Every generation saw gains.

The outlook? It looks good. As with previous generations, we figured it out—and it appears Gen Z is doing the same, perhaps even faster.

Canada's Household Wealth by Generation, Q4 2024³ Average Net Worth & 1-Year % Change

Millennial	\$633,467 +10.4%
Gen X	\$1,254,954 +10.6%
Boomer	\$1,410,555 +2.6%
Silent	\$793,317 +4.1%

1. <https://www.economist.com/finance-and-economics/2024/04/16/generation-z-is-unprecedentedly-rich>; 2. <https://www.theglobeandmail.com/investing/personal-finance/retirement/article-retirement-savings-gen-z-canadians/>; 3. <https://financialpost.com/wealth/canadian-households-worth-more-million-2024>



Emergency Planning: Preparing Financially & Beyond

With the unfortunate reality of wildfires, floods and even a tsunami alert impacting various regions of Canada over the summer, emergency preparedness is no longer just an isolated concern—it's becoming increasingly relevant for more of us. While many high-net-worth families have long planned for unexpected life events through emergency funds and insurance, short-term crises like natural disasters often require an added layer of readiness.



We always promote the importance of an emergency fund: typically three to six months of living expenses set aside to weather unexpected challenges such as job loss, a medical emergency or home repairs. This article focuses on actions you can take now to help support physical safety and financial continuity in response to a fast-moving, adverse event.

Your Financial Readiness Checklist

Before a Crisis

- **Keep cash on hand:** Store \$200 to \$500 in smaller denominations in a waterproof container.
- **Safeguard documents:**
 - Store printed copies of IDs, insurance, deeds and key account details in a fire/waterproof folder.
 - Back up digital versions of financial documents and estate plans to encrypted cloud storage.
- **Review insurance:** Understand your home and auto policy coverage: What is included (e.g., flooding or evacuation-related costs)? Know your deductibles.
- **Leverage technology:** Download mobile apps for key financial accounts and enable alerts.
- **Create a communication plan:** Establish an out-of-town contact and family meeting place in case of separation. Keep a list of emergency contacts, including family, friends and professional advisors.
- **Prepare for vulnerable dependents:** Plan for pets, seniors, children or those with mobility/medical or other special needs.
- **Have essentials ready:**
 - Keep your vehicle at least half full of gas (where possible).
 - Maintain a three-day supply of medications.
 - Keep water, food and batteries stocked (see inset: "Planning for Your Emergency Kit").

Planning for Your Emergency Kit

This kit should contain essentials to sustain you for a 72-hour period:

- Water—four litres per person per day
- Non-perishable food
- Flashlight and extra batteries
- First-aid kit and medications/prescriptions
- Battery-powered radio
- Important documents (ID, health cards)
- Multi-tool (e.g., Swiss Army tool)
- Power bank and backup phone charger
- Masks, gloves, hand sanitizer

See the government website: <https://www.getprepared.gc.ca/>

After an Adverse Event

- **Document everything:** Photograph and document any property damage before cleanup.
- **Keep receipts** for all related expenses.
- **Contact financial & insurance advisors** promptly to access emergency funds or initiate claims.

The Bottom Line

While no one expects a natural disaster to affect them directly, the reality is that we're all potentially vulnerable. Taking a few simple, proactive steps today can go a long way in reducing stress and protecting your financial security during an emergency. We certainly hope to never rely on these measures, but having a plan in place can provide critical support when it matters most. As always, we are here to help ensure your financial plans are designed to support you—both in everyday life and in the face of the unexpected.



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