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.

Doug Jones Terri Szego Richard Lawrence

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.

Doug, Terri and Richard

In This Issue

- Back-to-School Investing Lessons
- Investing After Strong Market Periods
- Why Tax Planning Is Ever More Important
- Younger Generations: Going to Be All Right
- Joint Ownership: The Good, Bad... & Ugly

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

	Investor 1 – Gradual Contributions			Investor 2 – Lump Sum Contribution		
Year	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.

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!

Investing After Strong Market Periods

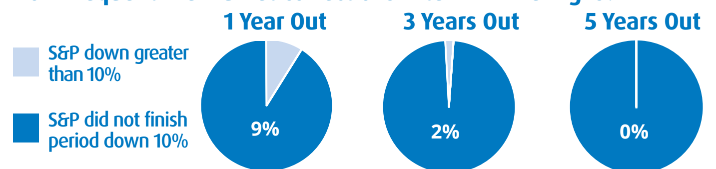
"The strongest of all warriors are these two: Time and Patience."
— Leo Tolstoy

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 2024[1]

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.

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

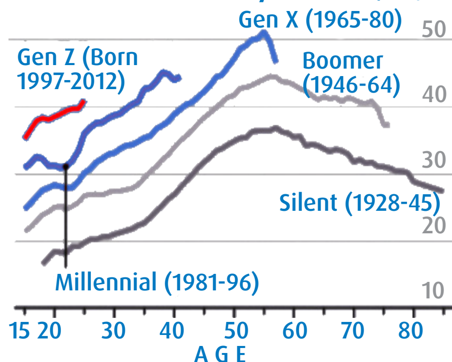
1. https://www.fraserinstitute.org/commentary/canadian-families-must-work-nearly-half-year-pay-taxes; 2. https://www.fraserinstitute.org/sites/default/files/2025-07/canadian-consumer-tax-index-2025.pdf

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 of Millennials in 2009.[2]

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



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.

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 2024[3]
Average Net Worth & *1-Year % Change*

Generation	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

Estate Planning & Joint Ownership: The Good, Bad... & Ugly

Owning assets jointly has grown in popularity, with spouses and, more frequently, between parents and children. While there are benefits, be aware of the potential pitfalls.

Joint ownership occurs when an asset is owned by more than one person. There are two forms: "Joint tenancy" (with the right to survivorship) refers to an arrangement in which the ownership of the asset passes directly to the surviving owner(s) upon the death of one of the owners.* As such, the asset passes outside of the deceased owner's estate. Under the alternative "tenants in common" arrangement, owners each hold separate ownership interests in the asset that can generally be sold, transferred, or bequeathed without the consent of the other owners.

In this article, the focus is on joint tenancy, increasingly used in estate planning. While there are benefits, be aware of the bad—and potentially "ugly"—implications prior to entering into this arrangement:

The Good...

Ease of asset transfer — Upon the death of one owner, the surviving owner(s) automatically becomes the owner of the asset, with few legal or administrative hassles upon transfer.

Bypass probate — Since assets pass to joint owners outside of the Will, no probate or estate administration fees are assessed, in provinces where applicable.

The Bad...

Tax implications — There may be potential tax consequences to joint owners. For example, if real estate is owned jointly between a parent and a child who already owns a residence, there may be a proportionate loss of the principal residence exemption. Adding a joint owner to a property could also result in the incidence of land transfer tax. For jointly-owned investment accounts, even if tax slips may be received in the names of the joint owners, the Income Tax Act could require attribution of the income earned and owned by one taxpayer to another taxpayer for tax purposes, based on who provided the capital, and what proportion was used to acquire the assets in question. Depending on the circumstances, adding another party as a joint owner could also result in the recognition of some gains or losses for tax purposes.

Loss of control — Joint ownership may mean that the original owner no longer has total control over the assets. With property, decisions regarding its maintenance or sale need to be made jointly. With financial accounts, such as a bank account, a joint owner generally has the ability to withdraw or use funds.

The Ugly...

Estate equalization issues — If the majority of assets are held in joint ownership (outside of the estate), the estate may not have sufficient assets to fund legacies or gifts outlined in the Will, or to cover potential tax liabilities. If an estate is to be divided equally but a jointly-owned asset hasn't been considered, expensive and divisive legal action could result. It also may not be clear if a joint-tenancy arrangement was done for ease of administration or if a change in beneficial ownership was intended.

Exposure to creditors or matrimonial claims — Jointly held assets may be exposed to claims by a joint owner's personal or business creditors, or ex-spouse. This could force the sale of an asset to cover the payment of debts or claims of the joint owner.

As always, please seek the advice of legal and tax advisors as it relates to your particular situation.

*Not applicable in Quebec, where the laws differ and an automatic right of survivorship does not exist.

L to R: Hailey Friedrichsen, Glen Breglia, Cherie Ahlberg, Hill Su, Ann McCarron, Mario Glavas, Bianca Creanga, Kyle Hetherington

Kyle is a former lawyer turned Investment Advisor. He holds his CIM designation and is a passionate financial advocate for his clients. Hill holds CPA, CA, CFA, & CFP designations. He is using his planning expertise to advise clients on both planning and portfolio construction. Cherie is a CFP and a specialist in wealth planning. Ann is a Senior Investment Associate with over 30 years of experience.

Glen, Mario, Bianca and Hailey are responsible for the administrative aspects of your account. For general inquiries, please call them directly.

Kyle Hetherington: 416-359-5275
Hill Su: 416-359-7608
Ann McCarron: 416-359-7668
Glen Breglia: 416-359-7049
Mario Glavas: 416-359-4008
Bianca Creanga: 416-359-7069
Hailey Friedrichsen: 416-359-4064
Cherie Ahlberg: 416-359-6899

Terri A. Szego, MBA, CFA
Senior Portfolio Manager,
Senior Investment Advisor
416-359-7677

Douglas M. Jones, CIM
Senior Portfolio Manager,
Senior Investment Advisor
416-359-7667

Richard Lawrence, CFA
Portfolio Manager,
Senior Investment Advisor
416-359-5377

BMO Nesbitt Burns Inc.
One First Canadian Place
P.O. Box 150, 40th Floor
Toronto, Ontario M5X 1H3

Toll Free: 1-800-227-9842
Fax: 416-359-7669
www.szegojoneslawrence.com

Szego Jones Lawrence
Wealth Management
BMO Nesbitt Burns

BMO Private Wealth provides this publication for informational purposes only and it is not and should not be construed as professional advice to any individual. This newsletter was produced by J. Hirasawa & Associates, an independent third party for the individual Investment Advisor noted. While every effort is made to ensure that the contents have been compiled or derived from sources believed to be reliable and contain information and opinions which are accurate and complete, the author does not accept responsibility or liability resulting from the information or content provided. The information contained in this publication is based on material believed to be reliable at the time of publication, but BMO Private Wealth cannot guarantee the information is accurate or complete. Individuals should contact their BMO representative for professional advice regarding their personal circumstances and/or financial position. The comments included in this publication are not intended to be a definitive analysis of tax applicability or trust and estates law. The comments are general in nature and professional advice regarding an individual's particular tax position should be obtained in respect of any person's specific circumstances.

BMO Private Wealth is a brand name for a business group consisting of Bank of Montreal and certain of its affiliates in providing private wealth management products and services. Not all products and services are offered by all legal entities within BMO Private Wealth. Banking services are offered through Bank of Montreal. Investment management, wealth planning, tax planning, and philanthropy planning services are offered through BMO Nesbitt Burns Inc. and BMO Private Investment Counsel Inc. Estate, trust, and custodial services are offered through BMO Trust Company. Insurance services and products are offered through BMO Estate Insurance Advisory Services Inc., a wholly-owned subsidiary of BMO Nesbitt Burns Inc. BMO Private Wealth legal entities do not offer tax advice. If you are already a client of BMO Nesbitt Burns Inc., please contact your Investment Advisor for more information. BMO Nesbitt Burns Inc. is a Member – Canadian Investor Protection Fund and is a Member of Canadian Investment Regulatory Organization. BMO Trust Company and BMO Bank of Montreal are Members of CDIC. "BMO (M-bar roundel symbol)" is a registered trademark of Bank of Montreal, used under licence.