

Investment Insights

Prepare for the Great “Unretirement”

Summer 2023

There was a time in the not-so-distant past when “Freedom 55” was the slogan for an ambitious retirement goal at age 55. Yet, what if life is not even halfway over by this age?

Today, reaching the esteemed 100-year milestone is no longer a rarity. Some longevity experts have gone so far as to say that the first person to reach age 150 has already been born.¹ The good news is that we are living longer and healthier lives — and, according to one study, often a lot longer than we expect. In fact, people systematically understate their chances of living to age 75 by 10 percentage points or more.² The bad news is that some may realize too late that they have claimed government benefits too early, passed up the opportunity to buy insurance or annuities or have simply undersaved for these additional years.

What is the possibility that your life might last much longer than you believe — will it change your perspectives on the present moment? Of course, this means a whole new set of issues — notably, those relating to our wealth planning to ensure a good quality of life over an extended period. As advisors, we make retirement planning and beyond a key focus in the wealth planning process. Whatever your plans, you should have the necessary financial means to enable you to make choices freely. Indeed, a good future is about having the freedom to choose.

Many may not have that choice. With the increasing cost of living, coupled with greater longevity, some retirees will need to consider work in some form. A recent survey suggests that over two-thirds of those who retired during the pandemic have considered returning to work, with more than half citing financial need as their main motivation. We may be on the verge of what has been referred to as the “Great Unretirement.”³ Yet, there may be a silver lining. The growing population of contributing seniors may spur a demographic dividend, accelerating growth per capita, driving economic expansion and enhancing social development. This “longevity economy,” in which the anticipated economic contributions from older adults will be higher, is expected to benefit everyone. And it’s not just those who need to work to support themselves. Others are challenging the traditional notion of retirement: No longer is it a time for rest, and some will choose to reinvest themselves in different roles to share their wisdom or to enjoy income-generating “hobbies.”

What about you? What is your vision for retirement and beyond? Regardless of your aspirations, make sure to give your wealth plan the attention it deserves today. Even small contributions can build wealth down the road. Consider that an extra \$250 per month invested over 30 years at a rate of return of 6 percent would yield over \$250,000 — not an insignificant amount, by any measure. By recognizing the current opportunities, even in these more challenging times, and having the courage to commit to them, investors can share in the growth that lies ahead to make that vision a reality. Continue to invest and plan for tomorrow to build your flexibility. And, above all, continue to look forward with confidence.

1. <https://news.harvard.edu/gazette/story/2023/01/has-first-person-to-live-to-be-150-been-born/>; 2. <https://wsj.com/articles/death-finances-and-how-many-of-us-get-our-money-needs-wrong-51a660a2>; 3. <https://weforum.org/agenda/2022/10/great-unretirement-older-people-working-longer/>

In This Issue

The FHSA: Four Key Benefits ... 2

Be Aware: The CRA May Be Watching ... 2

Combat Fraud: Take Five, Tell Two ... 3

Are We Near the End of the Rate Cycle? ... 4



Quinn+Cardy Wealth Management BMO Nesbitt Burns

Ethan Kuo-Lee, Jelena Milivojevic,
Geoffrey Cardy, Meredith Roberts, Joe Quinn,
Aimee Zheng

To Our Clients:

Until recently, the aggressive rate hikes by the central banks appeared to have limited effects on the economy. Yet, in the spring we witnessed a fallout in the U.S. regional banking sector, followed by swift actions by policymakers to contain the situation. This quick resolution may serve as a reminder for investors to not get too consumed by unpredictable events — and, perhaps, even those more seemingly predictable, such as the “imminent” recession that has now been called for over 18 months. For most of us, we are investing for the years to come.

The summer is the season for well-deserved downtime, but remember that our funds need no vacation. Continue to keep your assets working hard to meet your future goals. Remember that we are here to help! We hope you’ll enjoy many leisurely pursuits this summer.

The First Home Savings Account (FHSA): Four Key Benefits

The FHSA offers a new alternative for parents or grandparents looking to help younger folks with the purchase of a first home.

There was once a time when a gift of \$30,000 would substantially fund a home's down payment. Today, gifts of \$100,000 or more are not uncommon. Some have tapped retirement savings; others use loans or lines of credit — less appealing options with the rapid rise in interest rates. The FHSA offers a means to provide gradual support and grow funds in a tax-advantaged way.

What is the FHSA? The FHSA is a registered account intended to be used for the purchase of a first home. Eligible Canadian residents who are first-time home buyers ages 18 and over can contribute up to \$8,000 per year, to a lifetime limit of \$40,000. There are significant tax benefits: contributions will be tax deductible, similar to the RRSP, and withdrawals will be tax free, similar to the TFSA, if used for the purchase of a first home. Funds can grow in the account for up to 15 years, or until the year after the first qualifying withdrawal or the holder turns 71.

If you are looking to support the next generation with a future home purchase, the FHSA may be a great vehicle. Funds could be gifted to the holder to contribute to their FHSA, noting that gifted funds will result in a loss of control. Assuming the FHSA is opened at age 18, it would need to be closed by December 31st of the year after the child turns 33, which is the average age of a typical first-time home buyer.¹

Here are four reasons why the FHSA may be an attractive option:

1. The opportunity for compounded growth. There may be a significant opportunity to grow funds by investing in quality securities that provide meaningful growth and return potential. For example, an investor who maximizes contributions each year could grow the FHSA to over \$75,000 in 15 years, assuming a 5 percent annual growth rate, and this doesn't

include the tax benefit from the initial contributions.

2. The basis for a substantial down payment.

A couple who are both first-time home buyers could each access the FHSA, alongside the existing Home Buyers' Plan (HBP). The HBP allows first-time buyers to withdraw up to \$35,000 from their RRSP, subject to repayment in 15 years and other conditions. Together, these tools could provide a substantial down payment for a home — using the previous example, over \$220,000.

3. The benefit of carrying forward the tax deduction. FHSA contribution amounts not claimed as a tax deduction on an income tax return can be carried forward — even after the FHSA's closure! This may provide a substantial opportunity as the tax benefit from contributions can be used in future years when the holder's marginal tax rate may be higher.

4. Increased retirement savings, if you don't purchase a home. At the end of 15 years, if there is no first-home purchase, the account can be transferred to the holder's RRSP/RRIF without losing existing contribution room. This may be a significant way to supplement retirement savings.

Not Just for Younger Folks or Those Purchasing a First Home?

If you are a high-net-worth renter (or part of a couple that hasn't owned a home over the past four years), the FHSA offers a tax-advantaged growth opportunity. It can allow for an income-tax deduction for contributions, and contributions can grow in the account on a tax-deferred basis. The FHSA can then be transferred to an RRSP/RRIF to increase retirement savings.

For more information on the benefits of the FHSA, please call the office.



Be Aware: The CRA May Be Watching

Tax season may be over, but the Canada Revenue Agency (CRA) may still be watching. Here are some CRA-related reminders.

The CRA's prescribed rate, which is adjusted quarterly based on prevailing interest rates, stands at 5 percent.¹ Interest charged on certain overdue remittances has risen to nine percent! This may be particularly notable for investors who make quarterly instalment payments or remit payroll taxes for a small business: **Be on time to avoid costly penalties!**

The CRA continues its crackdown on tax mishandling. More recently, it has held back tax refunds for those who incorrectly claimed pandemic benefits, recovering \$237 million.² The CRA continues to monitor real estate transactions to curb non-compliance relating to property sales and unreported capital gains. Over six years, it has completed 61,000 real estate audits to target tax evasion. The **Residential Property Flipping Rule** that began this year is intended to support the CRA in clarifying a taxpayer's obligations. This deems the profits from the sale of a flipped property (generally one held for less than 365 days) to be business income.

1. <https://www.canada.ca/en/revenue-agency/services/tax/prescribed-interest-rates.html>;
2. <https://www.cbc.ca/news/politics/cra-withholding-tax-refunds-pandemic-benefits-1.6829594>

A Reminder: Keep Your Assets Working Hard for You

The \$1 trillion carryforward: By now, you have likely received your CRA *Notice of Assessment* for your 2022 taxes. Do you have available RRSP or TFSA contribution room? The latest statistics suggest there is over \$1 trillion of unused RRSP contribution room available.¹ Similarly, most TFSA holders have not maximized their contribution room.²

\$2.5 billion of unclaimed assets: Do any belong to you? We continue to be surprised at the vast amount of assets that remain unclaimed or forgotten. The latest reports suggest that \$1.1 billion of unclaimed balances are held by the Bank of Canada,³ and the CRA has 8.9 million uncashed cheques equating to over \$1.4 billion.⁴

To search for unclaimed assets, see: www.unclaimedproperties.bankofcanada.ca/app/claim-search. To check your CRA "My Account" for unclaimed cheques, see: www.canada.ca/en/revenue-agency/services/uncashed-cheque.html

1. At 2016; Statistics Canada Table 111-0040 "RRSP Room"; 2. www.canada.ca/content/dam/cra-arc/prog-policy/stats/tfsa-celi/2019/table3-en.pdf; 3. nationalpost.com/news/canada/how-to-know-if-you-own-any-of-the-1-8b-in-unclaimed-bank-accounts-in-canada; 4. www.canada.ca/en/revenue-agency/news/2022/08/approximately-14-billion-in-uncashed-cheques-is-sitting-in-the-canada-revenue-agency-coffers.html

A New Approach to Combat Fraud: Take Five, Tell Two

The fraud landscape continues to grow in sophistication, increasingly targeting victims through their personal devices and establishing long-term relationships to gain credibility.

In one financial scam, scammers befriend victims via text or social media and, over time, convince them to invest using websites that look like legitimate trading platforms. These investments appear to make gains over time and victims are then encouraged to invest more. Once they try to withdraw funds, they are charged significant fees or their transactions disappear. This scam was first associated with cryptocurrencies, but has now been linked to the gold market.

How can we protect against evolving scams? As a starting point, one expert suggests adopting the approach of: “Take five, tell two.”¹ If you are solicited by others, “take five minutes to think about it and then talk to two different people about it before doing anything.” This can prevent us from making rash decisions. Educating ourselves and others is also important. Here are common “red flags” that may indicate a scam:

- **It seems too good to be true.** Many financial scams promise quick gains or rewards. If it appears too good to be true, it likely is.
- **Personal/financial information is requested.** Be wary when personal information of any kind is requested or asked to be verified. Credible sources are unlikely to ask for this.
- **There’s a sense of urgency.** Many scams pressure victims to act immediately, using lost opportunity or consequences to evoke action.
- **There is secrecy or you are made to feel guilty.** Scammers may try to induce feelings of guilt or shame or ask to keep matters secret.

The Power of Dividends

What is the “secret sauce” for Warren Buffett’s success? The Oracle recently attributed part of his success to the power of dividends.

When equity markets are climbing, dividends often take a back seat to capital gains in investor focus. As we continue through a period of slower economic growth, and with interest rates rising from substantial lows, don’t overlook the contribution of dividends to portfolio growth over time.

A glance through the equity listings should remind us that dividend yields can be quite substantive. While the table below is not meant to contain purchase recommendations, it shows how dividend yields can compare favourably to fixed-income alternatives when accounting for taxation. And, as Warren Buffett reminds us, many underlying firms also offer the prospect of both share price and dividend growth.

Dividend Yield* vs. Interest Equivalent

	Dividend Yield	Interest Equiv.
Enbridge	6.68%	8.7%
BCE Inc.	6.01%	7.9%
Manulife	5.49%	7.2%
Telus	5.26%	6.9%
BMO	4.85%	6.3%
Brookfield Inf.	4.3%	5.6%
Cdn. Tire	4.06%	5.3%

*At May 11, 2023. For illustrative purposes only. Non-registered accounts. Based on tax rates of 50.25% for ordinary income and 35.02% for eligible dividends, provincial averages for income over \$250,000 in 2023.

In his most recent shareholder letter, Buffett suggests that dividends are part of his “secret sauce.”¹ He points to his investment in Coca-Cola made almost 30 years ago that has appreciated in value and continues to grow dividends each year “just

A Solid Defense: Doing Nothing

It goes without saying that we should all maintain a sense of vigilance when it comes to sharing personal information. Not responding can be one of the best ways to stay safe. Don’t

answer a call if you don’t recognize the caller; often, a scammer’s goal is to find out if a phone line is active. Never respond to emails, text messages or social media requests from unknown sources. If you aren’t certain if a situation is credible, double check. An internet search can often determine if others have been similarly propositioned. Or, if a source claims to be a legitimate company, try calling a general number found on the internet.

There may be benefits to using various tools to add an additional layer of protection. Many mobile phone companies now offer “call control” to help screen out robo-callers or spammers. Anti-phishing software and other cyber security tools can help protect against potential attacks.

Keep Updated and Help Those Most Vulnerable

Many online resources report the latest scams and suggest ways to protect against fraud, such as the *Better Business Bureau*, www.bbb.org/ca/news/scams and *Canadian Anti-Fraud Centre*, www.antifraudcentre-centreantifraude.ca. Take the time to check in with more vulnerable individuals and talk about the latest scams. Those who live alone or are more isolated tend to be prime targets for scammers.

1. www.cbc.ca/news/canada/toronto/fraud-scams-tips-avoid-ontario-1.6764432



as certain as birthdays.” Buffett compares this to a “similarly-sized investment mistake” in a high-grade 30-year bond that would retain, not grow, its value and pay an unchanged coupon rate from year to year. It’s good food for thought: Dividends, alongside share price appreciation, can contribute to meaningful growth over time. Consider that an investment of \$100,000 in the S&P/TSX Composite Index 30 years ago would yield \$628,273 today, but with dividends reinvested would grow to \$1,318,766.² Buffett’s lesson for investors? “The weeds wither away in significance as the flowers bloom...And, yes, it helps to start early and live into your 90s as well!”

1. www.berkshirehathaway.com/letters/2022ltr.pdf; 2. S&P/TSX Composite and TR Indices, 01/29/93 to 01/31/23.

Summer Fun: More Investing Food for Thought

Q: Would you rather have: i) \$50,000 per year for 30 years; or ii) a penny that doubles in value each year for 30 years?

A: With the doubling penny, you would have over \$10.7 million in 30 years, compared to \$1.5 million with the first option. Of course, while a compounded rate of return of 100 percent is unrealistic, the doubling penny demonstrates the profound effect of compounded growth. It is often referred to as the “eighth wonder of the world” because of its substantial power to grow wealth over time, like turning a penny into \$10 million. In the words of renowned investor Charlie Munger, Warren Buffett’s business partner, “the first rule of compounding is to never interrupt it unnecessarily.”
Note: If you share this example with kids, they may ask: “what is a penny?”

Are We Nearing the End of the Rate Cycle?

With the U.S. Federal Reserve raising rates for the 10th consecutive time in May, this has been the most aggressive tightening cycle in 40 years.

In less than 14 months, the federal funds rate has risen by a total of 5 percentage points (500 bps) to 5.25 percent from where it stood at 0.25 percent in March 2022. The Bank of Canada (BOC) has similarly increased interest rates, raising the overnight rate by 0.25 percent to 4.75 percent at the start of June. (Note: this newsletter was written before the Federal Reserve rate announcement on June 14.) However, in its May announcement, the Fed indicated it would be “determining the extent to which additional policy firming may be appropriate.” This prompted the question: Are we nearing the end of the rate cycle?

Until recently, the effects of the rapid rate hikes have appeared relatively benign. One market strategist suggested that if you were to tell investors two years ago that we would be entering one of the most aggressive rate increase cycles in history, alongside inflation that would near double digits, you would think that there would be greater effects on the stock market.¹ For example, one way to value an investment is by using a discounted cash flow method which looks at future cash flows: a higher discount rate should make today’s present value of future cash flows lower. Yet, back in May 2023, both the S&P 500 and the S&P/TSX Composite hovered around similar levels to those of May 2021.

Glass Half-Empty or Half-Full: Are We Headed to Recession?

The U.S. regional banking sector fallout in the spring was a reminder that there were likely to be follow-on effects from the unprecedented speed and magnitude of the hikes. After all, these actions were intended to slow the economy. As part of the normal course in every business cycle, some businesses will collapse, making room for others to grow. Yet, it is somewhat confounding that unemployment levels remain at lows and consumer spending has been relatively strong. Despite the expectation for slower growth, the latest earnings season has been positive. For many months, market pundits have suggested an imminent recession, but these factors may suggest otherwise.

Equity Markets: What Happens at the End of the Rate Cycle?

If we are nearing the end of the cycle, if history is any indicator, it may be good news for the equity markets. A look back at past tightening cycles shows that equity markets have historically performed well in the year after the final rate increase. Similarly, analyses show that the markets have rallied in the months after a pause.² However, in the near term, a resilient labour market and more sticky inflation, recently driven by service sector growth and the housing market, could contribute to keeping interest rates elevated — all of which are carefully being watched and likely to influence future rate decisions.

Of course, from our perspective as we manage assets for the long term, the challenge for investors is ignoring the day-to-day noise and continuing to position assets for when we will eventually need to access our capital — sometimes a decade or two into the future, or more, depending on your timeline. For many investors, longer-term returns are the only ones that matter. Though we may all appreciate some respite from the volatility of the past two years, consider also that buying when prices are lower is one of the best ways to improve longer-term results. Keep perspective and continue looking forward.

1. [a.wealthofcommonsense.com/2023/05/how-interest-rates-inflation-impact-stock-market-valuations/](https://www.wealthofcommonsense.com/2023/05/how-interest-rates-inflation-impact-stock-market-valuations/); 2. ritholtz.com/2023/05/10-wednesday-am-reads-330/; www.bloomberg.com/news/articles/2023-05-06/wall-street-is-in-no-mood-to-celebrate-the-fed-s-last-rate-hike



With the compliments of...

Joe Quinn

Senior Portfolio Manager
Senior Investment Advisor
416-359-5812
joe.quinn@nbpcd.com

Geoffrey Cardy

Senior Portfolio Manager
Senior Investment Advisor
416-359-5599
geoffrey.cardy@nbpcd.com

Meredith Roberts

Senior Investment Associate
416-359-4797
meredith.roberts@nbpcd.com

Jelena Milivojevic

Client Service Associate
416-359-4456
jelena.milivojevic@nbpcd.com

Aimee Zheng

Client Service Assistant
416-359-6195
aimee.zheng@nbpcd.com

Ethan Kuo-Lee

Client Service Associate
416-359-8335
ethan.kuolee@nbpcd.com

BMO Nesbitt Burns Inc.

1 First Canadian Place
38th Floor, P.O. Box 150
Toronto, Ontario M5X 1H3
Toll Free: 1-800-263-2286
Fax: 416-359-5346
www.quinncardy.com

S&P 500 Average Return One Year After Final Hike in a Fed Tightening Cycle

Date of Cycle End	One-Year Return
5/1/74	-4.5%
3/3/80	+16.1%
8/21/84	+12.7%
2/24/89	+12.9%
2/1/95	+35.7%
5/16/00	-12.3%
6/29/06	+18.1%
12/20/18	+27.9%

Source: Strategas



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. Nesbitt Burns Inc. is a member of the Canadian Investor Protection Fund and the Investment Industry Regulatory Organization of Canada. BMO Trust Company and BMO Bank of Montreal are Members of CDIC. © Registered trademark of Bank of Montreal, used under license.

This publication is for informational purposes only and is not and should not be construed as professional advice to any individual. Individuals should contact their BMO representative for professional advice regarding their personal circumstances and/or financial position. This newsletter was produced by J. Hirasawa & Associates, an independent third party for the individual Investment Advisor noted. The calculation of performance data set forth herein has been prepared by the author as of the date hereof and is subject to change without notice. The author makes every effort 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 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. Opinions, estimates and projections contained herein are those of the author as of the date hereof and are subject to change without notice and may not reflect those of BMO Private Wealth. Individuals should contact their BMO representative for professional advice regarding their personal circumstances and/or financial position. Please note that past performance is not necessarily an indicator of future performance. All rights are reserved. No part of this publication may be reproduced in any form, or referred to in any other publication, without the express written permission of BMO Private Wealth. BMO Nesbitt Burns Inc. is a wholly owned subsidiary of Bank of Montreal. If you are already a client of BMO Nesbitt Burns Inc., please contact your Investment Advisor for more information.