Hassan Fox Wealth Management

Market Commentary

Interest Rate News

Are we at the end of the line with interest rate increases? In July, both the Bank of Canada and the US Federal Reserve, were at it again, raising rates another quarter point. While many think that these latest increases were unnecessary given the already sharper lower inflation trends, there is a strong likelihood that each central bank now will pause to assess the impact of previous rate announcements. BMO Economics is forecasting that, data dependant of course, a September skip (i.e. no rate increase) will turn into a prolonged pause, "in other words, welcome to terminal territory".

Economic Outlook

Even with all the central bank rate hikes since March of 2022, the economy continues to surpass expectations. Consumers have been resilient and are supported by high levels of employment, wage growth, savings and immigration. While the economy remains strong, central banks are moderating inflation towards the long-term goal of 2%. Central bank's rates are now higher than they were in 2007 and are having an impact on the economy as evidenced through slowing inflation.

While the high end of the new US Federal Reserve target rate range of 5.5% is the highest level in 22 years, taking a longer-term view shows that this level has not been particularly detrimental over the past several decades. In fact, the economy and financial markets have been able to withstand far higher levels while staying buoyant. In other words, the recent anomaly isn't rates at 5+%, but rather the time period prior when free money was showered on consumers and investors. History has shown that people engage in unhealthy speculative behaviours when interest rates are close to zero, and this past cycle was no exception.

Portfolio Strategy

During the month of July, we sold our position in Aritzia Inc., using the proceeds to invest in a broader overall Canadian market ETF. We remain constructive on the equity market and continue to position our portfolios with an overweight to equities and underweight to fixed income.

Insurance Considerations for Individuals

Unforeseen events, such as illness, disability, or death, can have a devastating impact on a family and their financial future. Insurance is an important part of a comprehensive wealth management tool and helps provide financial protection against the unexpected. This article discusses several types of insurance coverages available to help individuals safeguard themselves, their family and their wealth.

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Faisal Hassan CIM®, PFP® | Portfolio Manager, Senior Wealth Advisor, Senior Investment Advisor | 416-590-7620

Brad Fox, CIM® | Portfolio Manager, Senior Investment Advisor | 416-590-7606

Erik Olesen, CFA, CFP®, CIM | Portfolio Manager | 416-590-7644

Suzanne Probyn | Investment Representative | 416-590-7608

Shirley Tse | Investment Representative | 905-305-8766

Tanishq Chatterjee | Investment Representative | 416-590-7633

www.hassanfox.com | toll-free: 1-800-567-2626 | fax: 416-590-7601

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Insurance Considerations
for Individuals

Unforeseen events, such as illness, disability or death, can have a devastating impact on a family and their financial future. Insurance is an important part of a comprehensive wealth management plan, and helps provide financial protection against the unexpected. This article discusses several types of insurance coverage available to help individuals safeguard themselves, their family and their wealth.

Life insurance

People buy life insurance such that, upon their death, their loved ones will be taken care of financially. There are two types of life insurance policies: term and permanent.

i. Term insurance

Term insurance provides a tax-free, lump sum payment to the named beneficiary(ies) of the policy, if death occurs within the policy's term. Term insurance can provide coverage for temporary needs such as funeral expenses, to settle outstanding debts, including mortgages, and to help replace the income of the deceased to cover living expenses. For a widowed parent, life insurance can help to cover the costs of raising children, pay university/college tuition fees, or even provide enough financial resources to be a stay-at-home parent. Insurance coverage expires at the end of the policy's term (e.g., five, 10, 20 or 30 years), unless the policy is renewed.

Term insurance premiums are generally lower than those for permanent policies in the early years, which allows for the purchase of higher levels of coverage at a younger age, when the protection needs of a family are often the greatest. However, when an existing policy is renewed for an additional term, the premiums can be substantially higher than premiums on the previous policy. Many term policies can also be converted to permanent coverage within a specified timeframe, generally before the age of 65.

ii. Permanent insurance

Permanent insurance, such as whole life and universal life, provides coverage for long-term needs that are ongoing, evolving and of a permanent nature, such as estate preservation, business succession planning, supplementing retirement income, income tax reduction, and paying one's final taxes and estate settlement costs. These policies provide lifetime insurance protection, as long as the premiums are paid.

Permanent life insurance includes a life insurance component and may also include an investment component. Premiums for permanent life insurance are higher initially than for term insurance, but generally remain level so premiums don't increase with age or as your health status changes.

Some permanent life insurance policies accumulate a cash value that is either added to the face value of the policy and paid out upon death, or returned to the policyholder if the policy is cancelled.

The two main types of permanent insurance are whole life and universal life.

Whole life insurance – Whole life insurance is a type of permanent life insurance that guarantees the amount of your premiums; these premiums will not change as you get older. The insurance company oversees the investment component of the policy and will generally invest in fixed income type securities. These policies often have a guaranteed minimum cash value, and the death benefit, an amount paid out upon death, is also guaranteed.

Universal life insurance – Universal life insurance combines life insurance with an investment account. Universal life insurance is generally suitable for individuals who have a permanent need for life insurance, have maximized their annual Registered Retirement Savings Plans ("RRSP") and Tax-Free Savings Account ("TFSA") contributions, and are seeking additional tax-sheltered cash accumulation. Universal life premiums/deposits can be increased or decreased, within limits specified in the policy, providing flexibility for sheltering additional deposits.

The policyholder is also responsible for selecting how the premiums/deposits are invested. As a result, the death benefit and cash value of the investment account may increase or decrease depending on the types of investments chosen and the returns on those investments. Policyholders can usually borrow against their policy, using the policy's cash value as collateral.

Upon death of the policyholder, the death benefit, which would include the investment component, is paid tax-free to the beneficiary(ies).

Living benefits

To safeguard against the potentially devastating impact a life-threatening illness or disability can have on you, your family and your finances, disability, critical illness, and long-term care insurance can offer coverage beyond that provided by government and employer benefit plans.

i. Disability insurance

The ability to earn an income is important since it generally supports one's lifestyle. If you're unable to earn an income due to health issues or a disability, having adequate disability insurance coverage is important for meeting your living expenses and achieving your long-term financial security.

Disability insurance is designed to replace a portion of your income in the event you become disabled due to accident or illness and are unable to work. While your employer may offer disability insurance as part of their company benefits package, you should check the details of this policy as company benefits often only cover a percentage of your income. In this situation, it might be beneficial to purchase supplemental disability insurance coverage.

ii. Critical illness insurance

With advances in medical science Canadians are surviving illnesses that probably would have resulted in death in the past. But, while people are surviving, the same may not be true for their finances. A critical illness such as cancer, heart attack or stroke can have a devastating impact on your financial well-being. You may be unable to work and medical bills not covered by government and company health plans can mount up quickly. You may also incur unexpected expenses throughout your illness and recovery that don't qualify for traditional health plans. Without critical illness insurance, it may be necessary to draw on your investment portfolio to cover these costs, which could significantly impact your retirement savings.

Once diagnosed with a qualified illness, a critical illness insurance policy generally pays a tax-free cash benefit (typically about 30 days after the initial diagnosis, and assuming you survive), which is equal to the amount of insurance you purchased. How you use the money is entirely up to you. You can use the benefit to take a sabbatical and recuperate, help pay off your mortgage, make renovations to your home to accommodate any special needs, inject money into your business to keep it going while you're recovering, or even pursue private medical treatment outside Canada. The flexibility provided by critical illness insurance benefits can help alleviate financial worries during this time.

Conclusion

Regardless of your age or stage in life, insurance should be part of a comprehensive wealth management discussion. Having the proper insurance coverage in place can help protect you, your family, and your finances, and provide comfort in knowing that uncertainties can be overcome.

For more information, please speak with your BMO financial professional.

BMO Private Wealth

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