May 2024

Hassan Fox Wealth Management

Market Commentary

Interest Rate News

After a strong run to start the year, April saw markets give back some of their gains. Concerns about the US Federal Reserve having to change course on its interest rate path was the main culprit. US price data showed higher inflation than expected while economic growth has slowed. This leaves the central bank in a difficult position as it would like to cut rates to help spur the economy, but fears doing so would put inflation back on an upward swing. Recent comments by Fed Chairman Jerome Powell indicated that inflation was "still too high" and that rate cuts would not occur until there was "greater confidence" that price growth was falling towards it's 2% target. This has resulted in investor expectations of rate cuts shifting to later in 2024, if at all, this year. Markets in both Canada and the US were negative for the month of April. For context however, the S&P 500 just underwent the best five-month rally since the pandemic bear market low four years ago. Before that, you have to go all the way back to the lift-off from the credit crisis low in early 2009 to see a similar sized five-month rally. We believe a partial retracement of the rally since last October is nothing more than a healthy breather following a historic rally and should be followed by further new highs as part of this otherwise healthy cyclical bull market.

Recently, we have fielded several questions about our thoughts on the upcoming US presidential election and as 2024 continues to progress we will no doubt hear more about it in the news. It is looking increasingly like it will be a repeat ballot to 2020, with current president Joe Biden going against previous president Donald Trump. From a strictly market perspective, election uncertainty can typically lead to increased volatility. However, there is no conclusive evidence

Intuitively this makes sense, because stock returns are influenced by a myriad of factors such as valuations, corporate profits, business cycles, monetary policy, etc. In addition, the increasingly global economy (the S&P 500 generates more than 50% of revenues outside the U.S.) makes the actions of a single government less important.

Portfolio Strategy

April saw us make a couple of minor changes within our North American portfolios. We exited our position in UnitedHealth Group and used the proceeds to purchase Merck & Co. Merck is a diversified global biopharmaceutical company that we believe is well positioned for growth. In another move, we took some profits from our position in Cameco and used the proceeds to add to Canadian Natural Resources and our position in an S&P/TSX Index ETF. On an asset allocation basis, we remain unchanged with an overweight to equities and slight underweight to fixed income.

Insured Retirement Strategy

The tax sheltering opportunities provided by Registered Retirement Savings Plans ("RRSPs"), Tax-Free Savings Accounts ("TFSAs") and Registered Pension Plans ("RPPs") are limited. In addition, recently proposed changes to the Capital Gains Inclusion Rate (legislation has yet to be released as of publication) may impact how individuals, professionals and business owners save and invest for their retirement. As a result, the insured retirement strategy may be the ideal solution for those who have maximized their RRSP, TFSA and RPP contributions, can benefit from permanent life insurance protection, and are looking for a financial planning strategy that may provide a tax-efficient suggesting the president's party has any statistically significant impact on U.S. equity market returns.

way to save for their retirement and estate. The attached document outlines how the strategy works.

Hassan Fox Wealth Management

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 | Client Service Associate | 416-590-7608

Tanishq Chatterjee | Client Service Associate | 416-590-7633

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

BMO Private Wealth

HassanFox Wealth Management

Insured Retirement Strategy

Tax-deferred Growth Today – Tax-free Income Tomorrow

The tax sheltering opportunities provided by Registered Retirement Savings Plans ("RRSPs"), Tax-Free Savings Accounts ("TFSAs") and Registered Pension Plans ("RPPs") are limited. As a result, the insured retirement strategy may be the ideal solution for individuals who have maximized their RRSP, TFSA and RPP contributions, have a need for permanent life insurance protection, and are looking for a financial planning strategy that may provide a tax-efficient way to save for their retirement.

How does the insured retirement strategy work?

To implement the strategy, a permanent life insurance policy is purchased – based on your needs – and the premiums are structured to build a cash value within the life insurance policy. All investment earnings are tax deferred as long as they remain within the policy.

At retirement, when additional cash flow – either as a lump sum or as a stream of advances – is required, the life insurance policy is leveraged to access the cash value. Leveraging involves setting up a loan (or line of credit) through a financial institution and using the accumulated cash value within the life insurance policy as collateral for the loan. The maximum amount that can be borrowed ranges from 50 to 90 per cent of the cash value within the policy, depending on the specifics of the situation at the time. Any loan advances provide you with a tax-free cash flow.

You will be charged interest on the loan; however, often an additional loan can be arranged to cover the interest payments. The accumulated loans must remain within the lending limits, based on the accumulated cash value within your policy, to prevent the policy from being terminated.

Upon death, the life insurance proceeds are used to repay the outstanding loan(s), and the remaining funds are paid to your named beneficiaries.

The insured retirement strategy uses a life insurance policy and leveraging to provide:

- Life insurance protection for your named beneficiaries;
- Tax-deferred growth of funds;
- Tax-free access to those funds in the future; and
- A tax-free benefit to your estate.

Issues to consider

The insured retirement strategy isn't suitable for everyone as the strategy uses leveraging to access the cash value of the policy. It's important to have a long enough time horizon to accumulate a sufficient cash value in the life insurance policy to generate the cash flow you require. Loan rates and cash values should be considered before deciding if the insured retirement strategy is appropriate for your circumstances. In addition, you should be aware that future Income Tax Act changes could potentially impact the practicality of this strategy.

Continued

Case study

Meet John and Sylvie

John is a 50 year old professional who maximizes his RRSP, TFSA and company pension plan contributions each year. John has additional disposable income and is looking for a tax-efficient way to build assets to fund his and his wife Sylvie's retirement, as well as provide life insurance protection for Sylvie if he were to die.

To implement the insured retirement strategy, John purchases a $1,000,000 life insurance policy and plans to deposit $58,339 per year for 15 years. Sylvie is named as the beneficiary of the policy.

At age 70, John determines he needs to supplement his retirement income, so he arranges a loan with his banker. Based on the accumulated cash value within his life insurance policy, John is eligible for an annual loan advance of up to $57,081 per year for 14 years (or up to as much as 90 per cent of the cash value in his policy) depending in the investment vehicle(s) chosen. John uses the loan to supplement his other retirement income sources. The annual loan advance takes into account John's desire to borrow an amount equal to his annual interest payment, so that he does not need to draw on his other savings to pay the loan interest.

If John were to pass away at age 85, the outstanding loan balance would be about $1,400,000. The proceeds of the life insurance policy ($2,700,000) would be used to repay the $1,400,000 outstanding loan balance, leaving approximately $1,300,000 to be paid to Sylvie as the named beneficiary.

The insured retirement strategy enables John to build a pool of non-registered assets in a tax-sheltered environment, while providing life insurance protection for his wife. At retirement, John benefits from a tax-free cash flow by taking a loan out against the policy. Upon John's death, the outstanding loan is repaid to the bank and the remaining funds are available for Sylvie to continue to fund her retirement.

The result

Life insurance policy benefit at death	$2,700,000
Annual deposit	$58,339
Projected cash value at age 65 (assuming the investments earn 4 per cent within the policy)	$1,087,000
Annual tax-free cash flow from age 70 to age 84	$57,081
Outstanding loan value at death – Age 85 (assuming a 6 per cent loan rate)	$1,400,000
Life insurance proceeds available to Sylvie	$1,300,000 ($2,700,000 less $1,400,000 outstanding loan balance)

Illustrated values based on BMO Life – Life Dimensions Universal Life, Single Life, Male, age 50 non-smoker, YRT85/20 COI, with the assumptions that are shown in the table, but owned individually rather than corporately. Based on the assumption that the insured is healthy. Illustration generated on April 22, 2022.

If you are looking for a tax-efficient way to build additional retirement assets, you may want to consider the insured retirement strategy.

For more information, please speak with your BMO financial professional who will refer you to an Estate & Insurance Advisor (Financial Security Advisor In Quebec) from BMO Estate Insurance Advisory Services.

BMO Estate Insurance Advisory Services

06/22-1012 ID6638_ACC