

Hassan Fox Wealth Management

## Market Commentary

### Interest Rate News

Market forecasts indicate that we are likely entering an era with more interest rate stability. The Bank of Canada (BoC) and Fed appear to now be on pause with the caveat that there may be one final increase. Equity markets tends to perform well when interest rates are stable which makes intuitive sense since traders and investors at large have historically rewarded visibility and stability with higher valuations. Another key conclusion is that economically sensitive stocks (think banks, utilities, energy producers), which have struggled since central banks started raising rates, tend to perform well in the period after interest rate stability is achieved.

October ended up being another difficult month in the market, as interest rates continued to climb, with the US 10-year Treasury rate crossing the psychologically important 5% level. However, late in the month, markets rallied as 10-year rate started to decrease on hopes that we had reached a cyclical peak for interest rates.

### Economic Outlook

Violence, political upheaval, and interest rate increases. Sadly, those factors have come to define much of 2023. Not surprisingly, investors have been in a sour mood and much of the market has been under pressure.

The silver lining however is that recent weakness has created value in the equity market although our strategy is still to be selective. In other words, for stocks, our focus continues to be on companies with strong competitive positions, solid balance sheets, and reasonable valuations. Importantly, the odds of a North American recession in the next year have continued to steadily decrease, now below 45%. This considerably lowers the likelihood of a painful bear market, at least in the next few quarters.

### Portfolio Strategy

In our portfolios we made a number of adjustments during the month. We sold Xylem, Albemarle, Enbridge, Canadian National Railway and Telus in our North American Portfolio, using the proceeds to buy Finning Int'l, Wajax, Canadian Natural Resources as well as an S&P 500 ETF and a S&P/TSX ETF. Our portfolios maintain their slight overweight to equities and in turn slight underweight to fixed income as we continue to look for opportunities to take advantage of yields and increase our allocation to fixed income.

### Using Whole Life Insurance as Estate Maximizer

For individuals concerned about having their estate pay significant taxes, thereby reducing the value ultimately left to their beneficiaries, this month's article looks at a strategy to help offset this estate liability. Purchasing a whole life insurance policy can help maximize your estate.



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# Individual Investment Shelter Strategy

Our estate plan strategy is simple. More estate, less taxes. A simple, sensible way to maximize your estate using tax-exempt life insurance.

## Meet Louis and Marie

They've taken care of their retirement income. Now how can they leave a greater legacy for their heirs?

If you're like Louis and Marie, you've worked hard, invested well and you're looking forward to your retirement years. You're also thinking about your estate – the more, the better. An individual investment shelter strategy could be the answer.

Louis and Marie have prepared themselves for a comfortable retirement income – with a sizable amount left over, much of it in non-registered investments: mutual funds and securities.



### The challenge

#### Their estate isn't all it could be. The reason? Taxes.

Your estate should be for your children. Or for charities you believe in. However, taxes can take away their share, because:

- Non-registered investment income is taxed during your lifetime.
- Non-registered investment gains are taxed when you pass on.
- Your estate is faced with settlement fees and expenses.
- As you can imagine, taxes and other costs can prevent much of your estate from going where you wish.

**Unless...**

## The solution

Use an individual investment shelter strategy to protect extra assets from tax.

This strategy uses a permanent life insurance policy in two ways:

**It's insurance.** A part of your annual premium immediately increases your estate's worth. That's more for your heirs already.

**It's an investment.** Some of your premium goes into an investment vehicle and the money, while inside the policy, grows tax-deferred. With Universal Life policies the policy owner chooses how the money is invested. With Whole Life insurance, it is invested in an account that is managed by the insurance company.

Three key advantages of an **individual investment shelter strategy**:

- Cash value accumulates in the investment portion, but is not taxed as long as it stays in the policy.
- Beneficiaries get the full value of the policy. Both the initial insurance and growth are theirs tax-free.
- Benefits can go straight to your beneficiaries – generally avoiding probate costs, estate fees, and settlement delays.

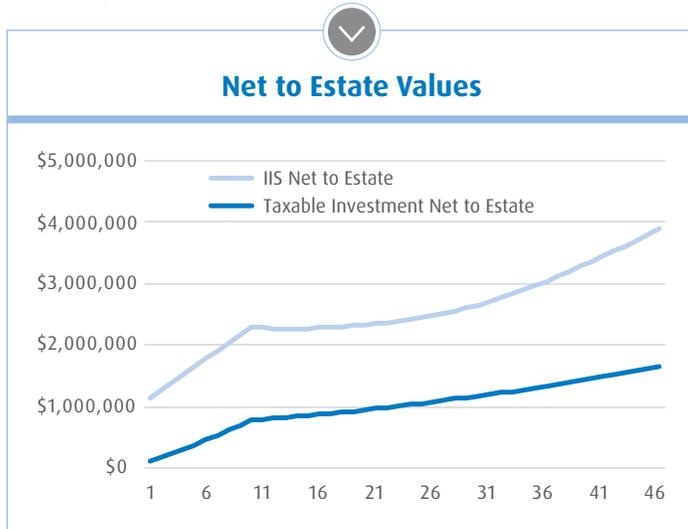
## The result

The individual investment shelter strategy made a significant difference to their after-tax estate value.

Let's say Louis and Marie shift \$65,425 per year over the next 10 years from their non-registered investments into a \$1,000,000 permanent life insurance policy. They now have an additional \$1,000,000 in life insurance, and the value of the death benefit will grow and grow.

### Here's how it stacks up

With this simple shift, Louis and Marie will be able to leave \$1,000,000 to \$1,500,000 more than if they maintain their current balanced portfolio.\*



\* Assumed current dividend scale of participating insurance plan, and 4 per cent for the taxable fixed-income investment. Both age 55, non-smoker, standard risk. Illustration generated on April 23, 2022.

### Seek advice

As you can see, the individual investment shelter strategy may benefit anyone whose estate plan is more estate and fewer taxes.

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.



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