Hassan Fox Wealth Management

Market Commentary

Interest Rate News

In fixed income, the 10-year US Treasury yield has remained consistently above 4% in recent weeks with levels once again near 15-year highs. Given what is likely to be a higher for longer interest rate environment, yields are likely to remain elevated when compared to recent years for the foreseeable future, a scenario that continues to worry many investors as it relates to stock market performance. However, it has been shown that stocks can perform quite well, even in a higher interest rate environment despite perceptions to the contrary. For instance, looking at rolling one-year monthly periods since 1979 shows that US stocks have performed well when the US 10-year Treasury yield was above its three-year moving average gaining an average of 8.6%[1]. The study showed that stocks did better when 10-year yield was below the three-year average, suggesting that if yields start to decline, markets can do even better.

Portfolio Strategy

As summer winds down and businesses get back to normal (following summer vacations) in the coming weeks and months, investors will once again be forced to evaluate the impact of a number of market variables. Valuations, earnings, interest rates, Fed policy and its impact on the strength and resiliency of the US economic environment have remained key questions throughout the year.

Despite these concerns, stock market performance thus far has been impressive with the S&P 500 on track for a solid double-digit calendar year gain (skewed by a few mega-cap technology names),while in Canada the S&P/TSX has seen more muted, but still solid performance. While there is still a fair amount of uncertainty to be resolved in the coming months that will likely lead to shorter periods of heightened volatility, we continue to believe that higher stock prices through year-end is the path of least resistance.

We made a small adjustment to our portfolios in August, selling our position in Nutrien and using the proceeds to buy a broad based US market ETF. With no change to our asset mix due to this trade, we remain overweight to equities with an underweight to fixed income securities.

Insurance Considerations for Individuals

The great wealth transfer has arrived.

With the youngest boomers now turning 60 and the oldest nearing 80, many are now transferring their wealth to the next generation, whether while living or due to their passing. The attached document provides tips on how to have those money-related discussions with your adult children.

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 | Investment Representative | 416-590-7608

Tanishq Chatterjee | Investment Representative | 416-590-7633

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

Six Tips for Talking to Adult Children
About Your Family's Wealth

The great wealth transfer has arrived.

With the youngest boomers now turning 60 and the oldest nearing 80, many are now transferring their wealth to the next generation, whether while living or due to their passing. Reportedly, US$84 trillion globally will get passed down to future generations over the next two decades, including investments, real estate, businesses, and other assets.[1]

Talking about wealth is an uncomfortable topic for many families. According to a recent BMO report[2], 59% of Canadians said they hadn't had any conversations about budgeting, financial planning or other money-related topics while growing up. At the same time, 61% of family businesses do not have a written, formal succession plan in place, with 29% listing discomfort discussing sensitive topics as a barrier to creating one.[3]

Passing a business or significant assets down shouldn't be left to chance. "I've seen some estates where parents are surprising their kids into a co-ownership situation they may not want to be in. They become partners by chance instead of partners by choice," **says Shelley Forsythe, Director of Family Enterprise Planning for BMO Family Office**. "They haven't had a dialogue around who might be interested in becoming an owner in the business or if sharing the family cottage makes sense. You need to have those conversations before you get your legal documents in place for input and feedback and to manage expectations."

How can you have money-related discussions with your adult children?

1. Create a script before the first family meeting

All parents, particularly those of affluent families, tend to avoid conversations with their adult kids because they fear confrontation, a loss of privacy or worry about their offspring becoming entitled and losing their motivation, says Forsythe.

Many also don't know where to begin. One way to start the process is to take some time to plan and develop a script, which can be an actual document they can reference during the first discussion. When developing that script, think about the key messages you want to share with your family, says Forsythe. Be clear about what you see as the purpose of the wealth, your WHY and intentions to ensure an open dialogue. If you would like an objective opinion on your script, elicit the advice of a trusted advisor.

2. Set the stage for conduct at meetings

Each family will conduct these conversations differently, but it's a good idea to develop a code of conduct everyone follows, which Forsythe describes as a "set of guidelines of how you interact and communicate with each other" that all family members can agree on. The code could include the ways in which people speak to each other – in a respectful, non-confrontational tone, for instance – the importance of confidentiality, expectations around participation and more.

"You want to ensure everyone's showing up putting their best foot forward and being self-aware," she explains.

Setting goals for the first meeting and subsequent discussions is also important to build communication, trust, and connectivity in the family. Develop an agenda that outlines the purpose and goals of the meeting, along with detailing what topics are for discussion, for information, for decisions or for learning. Consider creating a schedule of future meetings, too – while frequency will vary based on family relationships, geography, and the complexity of the assets, quarterly or bi-annual meetings are common. An annual family retreat can also be another worthwhile approach.

"Meetings may be more structured and formalized based on the generation, size and complexity of the family, but for anyone starting out, it's good to meet regularly and practice meeting together," she says.

3. Get the conversation started

When it comes time to talk, you don't need to jump into the numbers right away, says Forsythe. Ease into the discussion by starting with easier topics.

"Sometimes it's getting the parents to talk about their relationship with wealth and their values to help them think about the lessons they've learned and what mistakes they made," she says. "Get them to start talking about what they hope this legacy could look like and if they have multigenerational intentions. This can really set the stage for where they can go next."

This is an especially useful strategy in families that have already seen assets pass down from one generation to the next. Families can talk about the history of how the wealth was created in the first place and the legacy those assets have already created.

"Values come through in that storytelling, and it's those core values that are really helpful to ensure that everyone is on the same page," she explains.

4. Watch your language

As anyone who has ever been in any sort of argument knows, words matter. One wrong phrase can derail a conversation and, depending on what's said, even harm relationships. Stay positive and keep the greater good of the family in mind, says Forsythe. She suggests keeping the language in the initial scripts neutral, avoiding any accusatory words that could set someone off.

"Language is very important as everyone has a different definition of certain words," she explains. "Different kids might pick up on different words and think they mean different things." Here's where an advisor can add a lot of value. They're an objective and neutral party who can tell parents what words to avoid in a script or help tone it down.

Forsythe recalls a situation where she was working with a family and all family members (G1 and G2), were involved in the family business, but they weren't getting along. When creating their script, the parents wanted to talk about the importance of family relationships; however, they had a line that suggested the kids' spouses were from different roots and thinking. "I had them pull that right out," she recalls. "This wasn't the forum to indicate differences with spouses."

5. Discuss philanthropy

From Forsythe's experience, conversations around donating to charitable organizations making a difference or impact in their community or the world are a great way to ease into family finance discussions. Philanthropy is usually something everyone can get behind, which can open the door to broader money discussions. "Philanthropy is a really useful tool; you'll get used to meeting together and having conversations, learning together, working out disagreements and making decisions together," she says.

Ideally, you'll talk about the importance of giving when the kids are young so that when they're older, you can be open about your legacy intentions and how philanthropy might be incorporated into your master plan.

As part of the giving process, families often review the investment portfolios or assets earmarked for this purpose together, too. "The children are getting a lot of financial skills by going through that process, and these life lessons they're learning from a charitable giving perspective can absolutely segue over to the wealth transfer."

6. Provide education

Another key part of the wealth transfer discussion is financial education. It's one thing to say you're going to receive an inheritance, it's another to be prepared and educated on the responsibilities of that wealth. While parents can set up trusts and have trustees oversee the stewardship of funds, you'll still want to make sure your children understand the basics of the stock market, what it means to own real estate, the implication of taxes and so on.

"Having your kids learn about financial education is one of the greatest gifts that you can actually give them," says Forsythe.

Utilizing an advisor to help educate family members on the nuts and bolts of finances is often a good way to go. If it's an advisor who is already part of the process, then even better. They'll not only be able to impart general financial knowledge, but also have insights specific to the family's situation. Advisors can also direct family members to other experts who can help with more pointed education.

Clearly, there are a lot of moving parts to these conversations, but the keys to a successful wealth transfer discussion are to be purposeful, planned, prepared and patient.

"It definitely takes time," Forsythe says. "There's no one-size-fits-all for every family. Being able to have some of those sage conversations can go a long way to helping everyone come to a common understanding – the 'why' behind the wealth."

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

BMO Private Wealth

[1] BMO Private Wealth. "The Great Wealth Transfer is coming – here's how to properly pass down your estate". https://privatewealth-insights.bmo.com/en/insights/wealth-planning-and-strategy/the-great-wealth-transfer-is-coming-heres-how-to-properly-pass-down-your-estate/

[2] BMO News Releases. "Majority of Canadians are Adjusting Financial Plans Amid Growing Concerns about Inflation and the Economy: BMO Real Financial Progress Index". https://newsroom.bmo.com/2023-03-28-Majority-of-Canadians-are-Adjusting-Financial-Plans-Amid-Growing-Concerns-about-Inflation-and-the-Economy-BMO-Real-Financial-Progress-Index

[3] Brightstar Capital Partners and Camden Wealth Limited. "The North American Family Business Report 2023". https://brightstarcp.com/family-business-report/

ID8186 (08/23)