



Portfolio Strategy

The banking sector got a scare in March after US regional, SVB Bank failed following a run on deposits. Elsewhere Swiss bank, Credit Suisse, was purchased at a deep discount by UBS Group due to concerns of its viability after plans to borrow funds to shore up its liquidity fell through. Thus far, the banking sector's turmoil appears to be contained to the above-mentioned banks with specific issues, and two smaller crypto related banking institutions.

While financial sector stress should not be taken lightly, in our view, the more important factor at this point continues to be the inflation dynamic. Equities have historically performed very well in periods of high but falling inflation. In both Canada and the US inflation continues to tick lower with March readings down by 0.7% and 0.4% respectively month-over-month. Additionally, looking at interest rate cycles over the past 40 years shows that the best market returns are achieved when policy rates stay unchanged for longer periods, something the Bank of Canada and US Federal Reserve have signalled with their "higher for longer" statements.

During March we continued to increase our equity weighting adding to existing positions in CN Rail, Illinois Tool Works, and Johnson Controls. Later in the month we also initiated a position in TFI Int'l, a freight transportation and logistics services company. With the trades we have redeployed the cash levels raised in 2022 and are essentially fully invested.

The Health and Wealth Connection

A strong correlation exists between your health and your financial well-being. With good health, you may work longer, travel more, and engage in activities that improve your quality of life. In turn, these factors can also impact your earning power and saving potential. The attached article highlights to effects health decisions have on long-term wealth and offers strategies to help protect your wealth plan in case of any unforeseen events.

As always, should you have any questions please do not hesitate to contact us.

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The Health and Wealth Connection

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A strong correlation exists between your health and your financial well-being. With good health, you may work longer, travel more, and engage in activities that improve your quality of life. In turn, these factors can also impact your earning power and saving potential.

Even while maintaining a healthy lifestyle, you may experience an unexpected life-altering event which can derail your financial plans. That's why planning ahead for a medical event is equally important. This article highlights the effects health decisions have on long-term wealth and offers strategies to help protect your wealth plan in case of any unforeseen events.

Start by aiming for a healthy lifestyle

Building wealth affords you the opportunity to pursue interests you enjoy, and good health helps make that possible. For example:

- **Lowering financial stress** results in less risk of a heart attack,¹ while reducing debt can reduce the risk of depression and anxiety disorders.²
- **Getting adequate sleep** can lead to stronger decision making, memory and reaction time.³
- **Exercising regularly** improves cognitive function and drive.⁴

It makes sense then that good health can improve your work performance, which may lead to advancement opportunities and higher lifetime earnings. One study showed that those who exercise regularly have the potential to earn about \$25,000 more per year than those who don't.⁵ Another concluded that a higher body mass index led to lower pay, particularly among women.⁶

Meanwhile, the cost of poor health can increase over a lifetime and can greatly reduce overall wealth. For instance, a study revealed that among 65-year-old males with a high school diploma, the median wealth of those with good health is almost twice that of those who are unhealthy.⁶

Poor health was also associated with a reduction of more than \$200,000 in household net worth over a 16-year period.⁷ This can be attributed to declining health, leading to further doctor visits

and reduced productivity – preventing career advancement – which result in lower earnings and higher debt levels.

Be prepared by planning ahead

While good habits can help prevent outcomes of negative health, nothing is guaranteed. It's important to have plans in place to mitigate the stress that can result from a change in your physical or mental condition. Here are steps you can take to be better prepared.

1. Assign Powers of Attorney

Whom do you trust to manage your finances if you become incapacitated? Have you discussed how you would want your affairs managed? A Power of Attorney ("POA") is a document that you, "the donor," appoints someone, "the attorney," to make decisions on your behalf if you are unable to do so. In this article, the terms Power of Attorney, donor, and attorney should be read to include Mandate, Mandator and Mandatary, which are the Quebec equivalents. There are two types of POA: POA for property; and POA for personal care (the "Living Will"). As this article is intended to apply to all provinces, the Power of Attorney for property, which survives your incapacity is also known as a Continuing or Enduring Power of Attorney. A POA for property designates someone to make specific financial decisions, while a POA for personal care, or a "Living Will," names an attorney to make healthcare decisions and can provide direction around your wishes for your care.

The powers can be as broad as you decide and can cover many aspects of your personal and financial life. For example, you can name an attorney to:

- Manage your investment and bank accounts;
- File tax returns;
- Manage your real estate; and
- Make healthcare decisions for you.

When choosing an attorney, consider the person's physical location, particularly to assist you in healthcare decisions and in an emergency. For attorneys of property, consider someone who is financially responsible and who will execute your wishes. Work with your attorney to put documents in place that conform to your needs and to your province's legislation. For more information, ask your BMO financial professional for a copy of our publication, *Granting Power of Attorney*.

2. Protect your business

For those who are business owners, have you named someone to keep your business running if you have a serious health event? Oftentimes, life and disability insurance, when strategically designed, can be used as an effective funding vehicle for buy/sell agreements and key person coverage. They provide a smooth transition of power at terms which are agreed upon to ensure your business continues to operate without significant disruption if you are unable to carry out your responsibilities.

Buy/sell agreements define the terms to transfer ownership of a business in the case of specific triggering events, such as death, disability, or incapacity. For example, if you become ill and can no longer make financial decisions, the buy/sell terms can trigger. This allows other owners or key employees to purchase your interest (known as a cross purchase) or for the company to purchase your interest (known as an entity purchase) at the agreed upon price and terms in the document. This allows the company to continue running smoothly. Think carefully and clearly outline the circumstances which would cause a buy/sell agreement to trigger for your business. For example, define the length of any incapacity that would place the agreement in force and whether it applies to mental or physical health, or both. Review the conditions with your legal advisor(s) and business partner(s) to ensure everyone agrees.

In addition to buy/sell agreements, review Shareholders' Agreements (which govern the operations of a business and may include the terms of a buy/sell agreement), Trust documents, and POAs with your legal advisor(s) to ensure they align. Named attorneys and trustees are the most appropriate to assume your duties. For more information, ask your BMO financial professional for a copy of our publication, *Shareholders' Agreement – An Important Business Succession Planning Tool*.

3. Understand the impact of changes in your income

Can you manage the loss of income and increased expenses caused by a health crisis? The following steps can help you determine if you can adequately cover additional expenses or

lost income, or if you need to explore alternatives to avoid a significant disruption in your lifestyle.

First, calculate the cost of your lifestyle today and identify all sources of income to support it, including employment wages, earnings from investments, business income, employer pensions, and government benefits. Work with a financial professional to determine costs and income for the long term; be sure to adjust for inflation, along with the anticipated growth of your savings and investment assets.

Next, earmark which assets will be available to support your needs and how you will drawdown from them. Consider these strategies to ensure you drawdown tax efficiently from assets:

- Access provincial health plans first, then supplemental or employer healthcare policies.
- Work with your accountant to manage tax deductions and the timing of expenses. It's possible to maximize the tax credit available for qualifying medical expenses by paying them all in one year, instead of spreading them over multiple tax years.
- Focus on prudent savings, utilizing non-registered and registered accounts, such as your Registered Retirement Savings Plan or Registered Retirement Income Fund, and Tax-Free Savings Account to ensure you have the means to support unforeseen life events.

4. Do you need critical illness insurance?

Today, with advances in medical science and improvements in our lifestyles, we are surviving illnesses which were previously considered life-threatening. However, surviving a critical illness can also have significant financial consequences. Depending on the state of your health, you may not be able to resume working and medical bills which aren't covered by insurance can mount. You may also have to incur unexpected expenses throughout your illness and recovery.

Critical illness insurance pays out a lump sum amount if diagnosed with one of the specific illnesses or diseases covered by the policy, and then also surviving for the prescribed qualification period, usually 30 days, or in the case of most cancers, 90 days. Upon confirmed diagnosis of a critical illness, several of which are covered by plans from leading insurance companies, you are paid a tax-free lump sum benefit which is equal to the amount of insurance purchased.

Receiving this tax-free benefit doesn't affect the amount of disability benefits you may also receive from disability insurance coverage. You may use the benefit to pay off your mortgage, supplement an income of a spouse or partner who

takes time off to help support you, for specialized medical treatments, or to provide funds to sustain the operation of a business while you are recovering. Once the claim is approved, you can use the funds to meet any needs required.

Seek advice

Both your physical health and your financial well-being are connected to good habits and hard work, as well as access to information and support from professionals. As you take steps to protect your health, it's just as important to have a clearly defined wealth management plan that can give you peace of mind, knowing that you're prepared for any event. Ask your financial professional whether your wealth management plan adequately incorporates provisions for your health and financial well-being.

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



- 1 Stress links poverty to inflammation and heart disease: <https://www.nih.gov/news-events/nih-research-matters/stress-links-poverty-inflammation-heart-disease>
- 2 Reducing debt improves psychological functioning and changes decision-making in the poor: <https://www.pnas.org/doi/10.1073/pnas.1810901116>
- 3 Memory, Thinking and Sleep: <https://www.sleephealthfoundation.org.au/memory-thinking-and-sleep.html>
- 4 Effects of Physical Exercise on Cognitive Functioning and Wellbeing: Biological and Psychological Benefits: <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC5934999/>
- 5 New Study Reveals Strong Connection Between Regular Exercise and Happiness, Financial Wellness, and Sociability: <https://www.prnewswire.com/news-releases/new-study-reveals-strong-connection-between-regular-exercise-and-happiness-financial-wellness-and-sociability-300663984.html>
- 6 The lifetime costs of bad health: <http://users.nber.org/~denardim/research/NBERwp23963.pdf>
- 7 The asset cost of poor health: <https://www.sciencedirect.com/science/article/pii/S2212828X16300020>

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