



Portfolio Strategy

Happy New Year!

The year 2022 was volatile and difficult to navigate with seemingly very few places to hide in either equities or fixed income investments. This created an understandable general feeling of anxiety and pervasive bearishness among investors. With that said, while we expect volatility to remain, economic momentum should pick up (from low levels) as we move through 2023. As we have noted in previous commentaries, securities markets are primarily influenced not by absolute numbers but by the trajectory of key macro variables. On that front, the situation is already improving for inflation – though it may be a slow trek to get back down to the Bank of Canada’s desired 1-3% range. As always, the stock and bond markets will discount and price in these improvements well before we see the evidence in the “real world”.

Elsewhere, we are also seeing encouraging signals such as the job market at large as well as consumer confidence holding strong. As evidence, The U.S. Conference Board's Consumer Confidence Index in December increased 6.9 pts to an 8-month high of 108.3. Support for the number came from both of its components: the "present situation" (+8.9 pts) and "expectations" (+5.7 pts). As noted by BMO Economics, *“this particular survey is based more on the employment environment and that's where one can find the positive influence. Those who found that jobs were more plentiful picked up again, while there were fewer respondents who found it more difficult to land a decent gig. So, on net, the "jobs plentiful" component rose, which suggests that the jobless rate may tick lower after staying at 3.7% for the last two months”*.

As we start 2023 we remain underweight equities, underweight fixed income and overweight cash. During the month we didn’t make any changes to our asset allocation, though we did switch out of Nvidia using the proceeds to purchase Broadcom. Broadcom develops and designs semiconductors and infrastructure software solutions.

[Succession Planning is Key for Business Owners](#)

Seventy per cent of Canada's private company business owners plan to sell or pass their business on in the next few years. The attached article highlights the importance of succession planning for business owners and provides considerations for establishing an effective succession plan.

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

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Succession Planning is Key for Business Owners

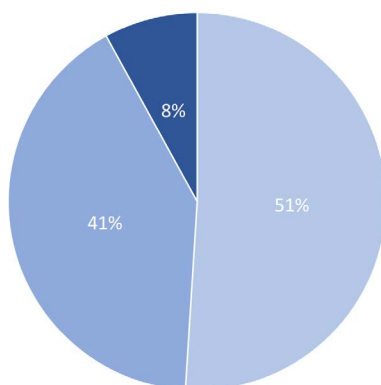
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Seventy per cent of Canada's private company business owners plan to sell or pass their business on in the next few years.¹ This article highlights the importance of succession planning for business owners and provides considerations for establishing an effective succession plan.

However, the majority do not have a formal plan to exit their business or preserve the continuity of the business upon retirement. As business owners look to retirement, decisions about when and how to retire will have a significant impact on their personal financial situations and the future of their businesses.

As a business owner, you invest time, energy, resources, and often your own funds to establish and grow your business. You'll want to apply the same care and diligence to prepare for what happens to your business after you leave it. When thinking about your retirement, ask yourself: If you sell your business, at what price? Will the children continue to run it, or someone else? What will happen to your employees? Who will service regular customers? These are important questions that are often overlooked, yet they form the basis of a formal succession plan. Succession planning defines and articulates a vision of the future for your business and your family and allows stakeholders to achieve favourable and desired outcomes.

Lack of succession planning by business owners²



■ No plan in place
■ Informal plan in place (i.e., unwritten)
■ Formal, written plan in place

Planning continues to be a key driver of success

Developing a formal succession plan may take years, therefore it's beneficial to start your decision-making early to ensure yourself a smooth transition into retirement and continuity of the business for your employees and customers. Business succession planning involves knowing the value of your business, identifying potential purchasers both inside and outside of your company, and determining the best time to sell. Moreover, it helps you identify the options available to you when you make the transition out of your business.

As a business owner, you may have a significant amount of your financial assets invested in your business. It is important to consider whether you have other financial assets, or if your business will be your primary source of retirement funding. In deciding to pass your business to a family member, you should discuss the matter well in advance of your retirement. The individual you have in mind to take over may not have the required skills or even the desire to run the business. However, if you are selling your business to a competitor or a partner, or bringing on a new employee whom you plan to have take over the business, it would be in your best interest to extract maximum value from the sale of your business.

Business exit strategies

There are financial and tax strategies you can incorporate into your succession plan to ensure the most profitable exit from a business. For instance, if you plan to transfer your business to family members, you may consider an estate freeze, which allows you to retain an interest in the business that can generate retirement income for you, while passing any future growth in the value of the business to the next generation. If the business is incorporated, you can potentially claim a capital gains exemption of \$913,630 in 2022 when you dispose of the shares, resulting in considerable savings.

There are additional strategies for maximizing your retirement income from your business. For example, you may consider establishing an Individual Pension Plan (“IPP”) or a Retirement Compensation Arrangement (“RCA”). There are also tax-efficient and cost-effective insurance strategies designed to generate supplementary retirement income while preserving money for your heirs. Another option is to remain as a consultant for your business.

Lack of planning can have a negative impact on your retirement income, causing you to miss the opportunities available by exploring lucrative and rewarding options that maximize all the potential benefits.

Key questions to address when retiring from your business

1. When am I planning to retire?
2. Who will I choose to take over my business?
3. What significance does the business have on my family and myself?
4. How much time do I require to groom my successor?
5. Can one of my children take over my business? How will this decision affect the rest of my family?
6. Will I still play a role in my business post-retirement?
7. What is the fair market value of my business?
8. Do I know what my retirement income needs are and if I have enough to maintain my lifestyle?
9. Have I spoken to my tax advisor to understand the possible tax strategies available, when the transition occurs?

Seek advice

If you are a business owner contemplating a sale or transfer of your business, setting your goals, vision, and exit plan early is critical for success.

Establishing a succession plan is a complex and meticulous process. A BMO Business Advisory and Transition Planning specialist can be a trusted partner in helping you navigate from planning to executing the ultimate sale or transfer.

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



¹ Source: PwC Canada, <https://www.pwc.com/ca/en/private-company/once-in-a-lifetime.html>

² Source: Canadian Federation of Independent Business, <https://www.cfib-fcei.ca/sites/default/files/2018-11/Getting-the-transition-right-succession-planning-report.pdf>

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