Portfolio Strategy

Political interest is intensifying regarding the U.S. debt ceiling, and with it presents a risk to markets and may lead to increased volatility over the next few months. Still, if history is any guide, the US government will reach a deal sometime in the eleventh hour, avoiding an outcome where the Treasury won't have enough funds to pay its obligations. In order to get the votes required to raise the debt ceiling, Democrats are probably going to have to offer modest policy concessions to Republicans. The political pressure to reach a deal will be immense, so even if it goes past the deadline a deal is likely to be reached in time.

Elsewhere, the silver lining from the recent banking scare is that 10-year interest rates – the cornerstone of financial markets – have fallen by about 50 basis points. The combination of slower growth, slower inflation, uncertainty surrounding U.S. regional banks, and the U.S. Federal Reserve (Fed) likely pausing its tightening stance going forward contributes to lower long-term yields. Given that inflation has likely peaked, rates will likely stay range-bound which has a positive impact on the fair value of stock markets.

The fundamental question for stock investors – and unfortunately, there is no definitive answer on this – is how much economic slowdown is currently priced into valuations? It would seem that a mild recession is priced in at this point but a severe one is not. This is also reflected in short-term markets pricing in lower Bank of Canada and US Federal Reserve overnight rates by Q1 next year (rate cuts of between 0.25% to 0.50%). Our view is that investors should make moderately positive returns from both stocks and bonds this year, however, it will likely come with continue continued volatility.

In April there were no changes to our portfolios. We continue to be fully invested at this time.

The Great Wealth Transfer is Coming

Over the next two decades, upwards of US$84 trillion globally is expected to pass from one generation to the next – both from the silent generation to boomers and from boomers to millennials. But before your hard-earned assets can be used by future generations, you'll want to make sure they are passed down in the right way. The attached article explains how to ensure your wealth is protected and properly passed on.

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

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The Great Wealth Transfer is Coming
Here's How to Properly Pass Down Your Estate

Over the next two decades, upwards of US$84 trillion globally is expected to pass from one generation to the next – both from the silent generation to boomers and from boomers to millennials.[1] But before your hard-earned assets can be used by future generations, you'll want to make sure they are passed down in the right way. You don't want your family to squabble over your legacy or squander your estate away in a manner worthy of an episode of *Succession*.

By some estimates, 70% of wealthy families see that wealth fizzle once control is handed to the second generation.[2] Now's the time to ensure your wealth is protected and properly passed down before your family must figure out how to divide your assets themselves. How? This article will explain.

Share your information

In some instances, people don't share all the relevant information about their wealth with their advisors. This may sound simple enough, but it's where many families come up short. "The more information we get from clients, the more we can build into the plan what it is they need to do with their finances," says **Cesare Salerno, Vice President and Regional Director of High-Net-Worth Wealth Planning at BMO Private Wealth**. This includes information from accountants, lawyers, insurance advisors, investment professionals and anyone else who helps you manage your wealth.

If you're like some high-net-worth ("HNW") and ultra-high-net-worth ("UHNW") families, you may be somewhat reluctant to share all your information, preferring to keep details of your wealth private. We respect many families prioritize their privacy and may not want to discuss the details of their wealth, says Salerno, but families should consider trusting in their advisor as their partner. Together, you can build a comprehensive wealth plan that will optimize your financial outcomes and decrease the chance that details about your wealth could be made public in legal proceedings.

Advisors should take everything into account, says Salerno. "We give guidance on the preparation of estate planning documents, we look at shareholders agreements, we look at previous tax returns," he says. "We look at any information that can be provided on a financial and personal basis."

Bring your family into the conversation

Another common challenge is ensuring the next generation is prepared to manage the family wealth. If you plan on leaving a large portion of your estate to your children, bring them into the conversation early by hosting family meetings or inviting them to special meetings with your advisor.

We have experts who can help manage conversations where there may be unique family dynamics, says Salerno. "It's something we welcome," he says. "We enjoy speaking to you because that's where we find we add a tremendous amount of value to our clients."

Conversations about your estate are not limited to what happens after you pass away. Many families are gifting money or assets while they can still watch their family enjoy their gift and help them learn to manage that wealth. For instance, some families give their children generous monetary gifts to help them pay for school or buy a home, with many seeing it as an opportunity to teach their kids how to handle wealth.

"Gifting too much during your lifetime can be a demotivator for some children," says **Lydia Potocnik, Head, Estate Planning and Philanthropic Advisory Services at BMO Private Wealth**. "It's important to find a balance to ensure that your children are taken care of while also driven to make their own way in life."

Carefully consider your executor

If you want to ensure the smooth transition of wealth, you'll need an experienced executor to be your advocate. Many people choose a family member or friend to oversee the distribution of their estate, but that's not always the best option. "The role of an executor can be very onerous, time-consuming and stressful if you're dealing with multiple beneficiaries and complex estate assets," says Potocnik. "You also have all that emotional stress and baggage that comes along with being an executor."

When appointing an executor, find someone who can be fair and neutral but also has some financial and legal acumen, she says. Large estates and complex assets also present different challenges, with many taking more than a year to administer. Not only will the executor need to be around for an extended period of time, but the longer the process takes, the more risk there is of that person having to relinquish their duties.

Increasingly, high-net-worth families are looking to their financial institution to carry out the executor role, says Potocnik. More families are naming a professional trust company as a co-executor with a loved one. If assets cross provincial or state boundaries, the corporate executor, as they're called, may be better suited to resolve complex tax matters or other issues that would be daunting for a first-time executor to deal with, she explains. "Many people are choosing this route because they don't want to burden their kids with the sole responsibility of being executor," she says.

Maintain your assets

If you want your money to last well into the next generation, you'll need to develop strategies to help your children maintain your assets. With markets declining, some families are now using what's called an estate freeze to minimize capital gains taxes on future portfolio growth. Essentially, this strategy allows you to freeze the value of your appreciating assets (these assets must be held inside of a corporation or trust) at their current market rates. You'll have to pay those taxes when you pass away, but you'll now know what you'll owe and have time to figure out how best to pay off the bill. Any increase in value from the time you freeze your estate will get taxed into your children's hands when they eventually sell securities from the portfolio.

If you're transferring a business to the next generation – and assuming your children want to take over the company – you'll want to make sure they can cover taxes that could come from transferring shares. If your estate doesn't have the cash to cover that bill, you could purchase life insurance to specifically pay for any unforeseen costs. "Insurance is a great strategy to make sure that liability is paid for, and the family members can continue to operate the business," says Salerno.

Insurance is also a popular way to equalize the distribution of the estate. Consider a family that owns a farm, says Salerno. One child may want to run the farm, but the other family members have other dreams. In cases like this, one child would receive the farm while the others receive the value of the farm via cash from the insurance policy.

With the Great Wealth Transfer rapidly approaching, now's the time to get your affairs in order so you can properly pass your assets down to the next generation – and perhaps even the generation after that. If you need help talking with your family about your estate plans or want to explore strategies to protect your legacy,

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

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[1] Cerulli Associates. "Cerulli Anticipates $84 Trillion in Wealth Transfers Through 2045." https://www.cerulli.com/press-releases/cerulli-anticipates-84-trillion-in-wealth-transfers-through-2045

[2] Kleinhandler, David. "Generational Wealth: Why do 70% of families lose their wealth in the 2nd generation," Nasdaq. https://www.nasdaq.com/articles/generational-wealth%3A-why-do-70-of-families-lose-their-wealth-in-the-2nd-generation-2018-10

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