

Investment Insights

S&P/TSX Composite at 1,000,000?

Spring 2024

With the S&P 500 reaching multiple new highs to start the year, some investors have expressed impatience with the lagging S&P/TSX Composite (S&P/TSX).

It's worth recalling that for much of last year, the investing world was preoccupied with the prospect of an 'imminent recession.' Yet, despite the many uncertainties, Canadian and U.S. economies have held their own quite well. Indeed, the long-awaited recession in the U.S. appears unlikely for now, with recent U.S. GDP statistics suggesting expansion. While Canadian GDP continues to be sluggish, let's not forget the central banks' objective in raising interest rates in 2022 was to slow growth to curb inflation. Economic resilience has surpassed expectations, partly due to low unemployment, which continues at relative lows. Wealth, wages and employment are higher now than they were before the pandemic.¹

As the major U.S. indices have hit new highs, when will Canada follow suit?² It was just over six years ago that renowned investor Warren Buffett made a memorable prediction worth repeating: Expect the Dow to reach one million in 100 years.³ And, perhaps the same could be said about the S&P/TSX.

At first glance, it may seem like quite the assertion, especially since the Dow hovered at a mere 100 points just 100 years ago.³ When Buffett made his prediction, the Dow had reached a level of 22,000; it had risen above the 39,000 mark on February 22. However, looking deeper into the numbers, at the time the Dow needed to compound at less than 4 percent annually to achieve Buffett's target. Today, Canada's S&P/TSX would need an annualized return of 4 percent to reach the 1,000,000 mark by 2124.

Yet, Buffett's intent wasn't to propose whether this arbitrary benchmark could be achieved. Rather, he meant to inspire confidence in future growth. History has shown that equities outperform most asset classes over the long run; not surprising since the overall growth in corporate profits has been an upward trajectory over time. This is not to suggest that short-term setbacks won't occur. These are inevitable and sometimes necessary to help reset economies or spark innovation and growth. There may be impatience with the lagging Canadian index; our stock market is generally at its best when interest rates are low, global manufacturing is robust and there's high demand for resources. But, markets and economies will ebb and flow, and we shouldn't lose sight of the growth that lies ahead.

Market strategist Ed Yardeni recently went so far as to suggest that we may be in for a repeat of the "Roaring Twenties." He believes we may be in the early stages of a productivity growth boom — a pivotal time in history due to the intersection of the availability of big data, high-powered computing and advances in artificial intelligence. Indeed, the longer-term outlook for economic growth is positive, with technology set to drive continued productivity and innovation, alongside efforts by governments to control inflation and focus on infrastructure and sustainability initiatives, just some factors that should help us prosper in North America. We can all benefit if we choose to participate, and we are here to provide wealth management ideas, strategies and support as we progress towards the 1,000,000 mark.

¹At the time of writing (early March 2024), the S&P/TSX has yet to reach a new all-time high in 2024. 1. Based on annual unemployment rates, StatsCan Table T-4-10-00020-01; 2. Dow Jones Industrial Average (Dow); <https://www.cnn.com/2017/09/21/dow-1-million-warren-buffett-says-it-can-happen.html>; 3. <https://www.fedprimerate.com/dow-jones-industrial-average-history-djia.htm>

In This Issue

FHSA or HBP: Which Is Better? ... 2

You Asked: Am I Holding a Bare Trust? ... 3

Make Investments More Tax Efficient ... 3

The Disability Tax Credit ... 4



Scott Kok, Garrett Surcon, Tim Mahoney

To Our Clients:

For most of us, personal income tax season has arrived once again. Are you taking every opportunity to legitimately reduce the taxes you pay? Don't hesitate to consult with us, especially with regard to your investment strategies, if you have any questions or are in need of ideas.

Spring is often referred to as the season of renewal. If you have friends or relatives seeking a fresh perspective on an existing portfolio or advice on a new financial situation, we would be pleased to offer our experience and support. Please feel free to share our information with them. We remain grateful to those who have made introductions and appreciate your continued trust in our services.

Wishing you a wonderful spring.

FHSA or HBP: Which Is Better?

As we enter the home-buying season, some clients have asked which plan is better for (grand)kids to purchase a first home: the First-Home Savings Account (FHSA) or Home Buyers' Plan (HBP).

While both can be valuable tools, in brief, here are some considerations:

First: An Overview of Each

The FHSA is a registered account that combines the best of the Registered Retirement Savings Plan (RRSP) and Tax-Free Savings Account (TFSA): Contributions are tax deductible (similar to the RRSP) and withdrawals are tax free (similar to the TFSA) if used to purchase a first home. Annual contributions of \$8,000, to a lifetime limit of \$40,000, can grow tax sheltered. The account can stay open for 15 years.

The HBP allows first-time buyers to tap their existing RRSP, subject to conditions, for a tax-free withdrawal of up to \$35,000. The amount must be repaid within 15 years; otherwise, it will be considered taxable income.

Simply put, the FHSA allows holders to save and grow funds to purchase a first home, whereas the HBP acts as an interest-free loan from the RRSP. The good news? They can both be used for the purchase of a new home.

Considerations: Growth, Funding, Withdrawals and Unused Amounts

Growth potential — For both the FHSA and RRSP, starting earlier allows greater time for funds to grow on a tax-deferred basis. Given the FHSA's 15-year limit, if an investor starts early and opens the account at age 18, by maximizing contributions from the outset, at a five percent annual rate of return the account could grow to over \$75,000 by age 33. By one account, this is the average age of a first-time home buyer.¹

Funding accounts — Both the RRSP and FHSA allow for tax-deductible contributions. While tax-free transfers from the RRSP are allowed to fund the FHSA, keep in mind this eliminates the important tax benefit: a transfer will not generate a tax deduction and won't reinstate RRSP contribution room.

Withdrawals — Funds can be withdrawn tax free from the FHSA for the purchase of a new home. HBP withdrawals are tax free as long as they are repaid within 15 years; otherwise, they will be considered taxable income.

Unused amounts — If you decide not to purchase a first home, unused FHSA amounts can be transferred to the RRSP. This will not affect existing RRSP contribution room, effectively increasing overall contribution room.

Which to Prioritize: FHSA or RRSP?

If funds are limited, which account should be funded first? The choice depends on different factors, including timing, savings amount and ability to repay the HBP. Yet, in many cases, prioritizing the FHSA may be beneficial.

With the FHSA, you may be able to access a greater amount for a down payment; in our example, the FHSA grows to \$75,000, while the HBP has a \$35,000 limit. There is also flexibility: If FHSA funds are unused, they can be transferred to the RRSP, increasing total RRSP contribution room. The FHSA may be more flexible for some since the HBP requires repayment within 15 years. However, this repayment is valuable as it preserves RRSP contribution room to allow for future tax-deferred growth for retirement.

The Bottom Line: Both the FHSA and RRSP's HBP are great tools to support a first-home buyer. If possible, maximize contributions to both accounts. The ability to grow funds on a tax-advantaged basis should not be overlooked!

1. <https://cdn.nar.realtor/sites/default/files/documents/2021-highlights-from-the-profile-of-home-buyers-and-sellers-11-11-2021.pdf>

In Brief: Perspectives on Diverging Economic Growth

While Canadian and U.S. economies share many similarities, there has been a recent divergence in economic growth. Why?

The divergence may be attributed to various factors. Higher interest rates have affected Canada more than the U.S., largely because we hold higher debt loads. Canada has the highest debt level of the G7 nations (chart).¹ Mortgage debt, which makes up the largest portion, renews more quickly than our U.S. counterparts, with the average Canadian mortgage term of five years, compared to the average U.S. 30-year term. Many Americans secured fixed rates during their lows, so there has been less exposure to rising debt costs. This has helped to sustain U.S. consumer spending. Consider that 68 percent of U.S. GDP is attributed to consumer spending!² As long as labour markets remain robust, consumer spending is expected to continue. Government policy has also supported the U.S. economy, as new infrastructure and clean energy projects have earmarked trillions in spending, created jobs and spurred \$640 billion in private investments.³

Are Rate Cuts Ahead?

The potential for interest rate cuts exists in both nations; however, for differing reasons. Our economic growth continues to be sluggish, so the Bank of Canada may cut rates to stimulate the economy. To start the year,

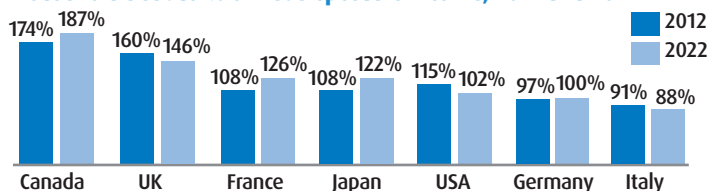
U.S. inflation fell faster than expected, yet growth remained strong. If inflation stays at low levels, the Fed may cut rates to prevent economic activity from being unnecessarily restrained.



While Canada's economic performance has lagged, the strength of our largest trading partner may provide near-term momentum. Our stock market has trailed due to its cyclical nature but is poised to benefit from interest rate stability and declining long-term rates. Higher corporate margins are possible through efficiency gains and lower input costs, particularly as inflation moderates. And, potential rate cuts may provide tailwinds to equity markets.

1. <https://financialpost.com/news/economy/families-facing-real-pressure-household-debt-levels-rise-cmhc>; 2. <https://fred.stlouisfed.org/series/DPCER1Q156NBEA>; 3. <https://www.washingtonpost.com/business/2024/01/25/gdp-2023-economy-boom/>; 4. Source: Latest OECD data, uses 2021 data for Japan and the USA.

Household Debt as % of Net Disposable Income, 2012 and 2022⁴



Make Investments More Tax Efficient

Spring is the season when taxes are top of mind. Just as investments benefit from compounded growth over time, the tax on income and gains can accumulate to become significant.

Recall the different ways that investment income is taxed in non-registered accounts. Interest income is fully taxable at the investor's marginal rate. Capital gains are taxed at half of this rate, since only half of the capital gain is taxable. Eligible dividend income from Canadian corporations generally attracts a tax rate somewhere in between the two.

How much of a difference can this make? The table below illustrates four scenarios (A to D), each involving an investment of \$50,000 at Year 0 and an annual rate of return of 6 percent compounded over 25 years. In A and B, tax is paid each year at different rates based on the type of income earned: interest and dividends. In C, taxes are deferred so there is no annual tax, but tax is paid at year 25 when capital gains are realized. In D, there is no tax; funds grow in a TFSA. After 25 years, the difference in

How Different Taxes Can Affect After-Tax Values (Illustrative)

Year	A: Interest Taxed Annually	B: Eligible Dividends Tax Deferred	C: Capital Gains Tax Deferred	D: TFSA No Taxation
0	\$50,000	\$50,000	\$50,000	\$50,000
1	51,492	51,949	53,000	53,000
5	57,921	60,537	66,911	66,911
10	67,098	73,295	89,542	89,542
15	77,728	88,741	119,828	119,828
20	90,042	107,442	160,357	160,357
25	104,307	130,084	214,594	214,594
After-Tax Value	104,307	130,084	173,239	214,594
Amount Paid in Tax	54,855	43,163	41,355	—
Difference (% of D)	49%	61%	81%	100%

Based on 6% annual growth. Tax rates are based on the average of 2023 combined federal, provincial and territorial personal marginal tax bracket at \$250,000 of ordinary income, eligible dividends or capital gains: 50.25%, 35.02% and 25.13%, respectively.

after-tax value is significant. As such, it is prudent to consider making investments more tax efficient where possible. In brief, here are some ideas:

1. Maximize tax-efficient accounts. Don't overlook the benefits of tax-advantaged accounts like TFSAs and RRSPs.

2. Optimize asset location. Different types of income may be taxed differently based on the type of account the income is generated from. By consolidating accounts, a comprehensive view can help to better optimize asset location across all accounts.

3. Consider tax-efficient alternatives. Some types of investments have tax-advantaged attributes. For instance, mutual funds, REITs, limited partnerships and others may provide return of capital (ROC) distributions that are not a taxable receipt. High-quality bonds trading at a discount provide income and a more favourably-taxed capital gains component.

4. Explore other tools. Other tools may help defer tax, such as an Individual Pension Plan (IPP) to allow business owners/executives tax-deferred growth to build retirement income. Small business owners may consider an estate freeze when succession planning to lock in the tax liability at death based on today's business value.



A Reminder: The Tax Treatment of GICs

With increased interest in Guaranteed Investment Certificates (GICs), remember that the associated tax liability must be reported on an annual basis for non-registered accounts. Many GICs are locked-in investments, meaning you can't cash them in until their maturity date. Yet, even if a GIC matures in a future tax year and interest has not yet been paid, the amount that has accrued within the tax year must be reported on a tax return. A T5 slip will be issued for amounts of \$50 or more.

You Asked: Am I Holding a Bare Trust?

Do you hold assets in an arrangement with a separate legal and beneficial owner, where the beneficial owner oversees the assets? You may be associated with a "bare trust" arrangement and have a filing requirement where you previously did not.

First, what is a bare trust? Generally, a bare trust arrangement may exist where a trustee has legal ownership of property/assets but no other duties, obligations or responsibilities with respect to the property other than to transfer under the absolute control/instructions of the beneficial owner the title to the property.¹

Here are two examples of where a bare trust arrangement may exist:

- You have been added to the property title of an elderly parent to assist with estate planning, but the parent retains beneficial ownership/control.
- As a parent, you have your name added to the title of an adult child's home to help the child qualify for financing.

Why is this important? Bare trusts are now subject to reporting requirements that changed for trusts with taxation years ending after

December 30, 2023. For most trusts, even if there is no income or activity to report, a T3 Trust Income Tax and Information Return must be filed within 90 days of the trust's tax year-end.

The good news? Since reporting requirements were expanded to include bare trusts, the CRA will provide penalty relief if a T3 return hasn't been filed by the deadline. This only applies to bare trusts for the 2023 tax year. Penalties are steep for failing to file knowingly or due to negligence — the greater of \$2,500 or five percent of the highest value of the trust property.

Since the intent of the arrangement can impact whether or not it is considered a bare trust, if you believe you may be associated with a bare trust arrangement, it's best to discuss your situation with qualified tax and legal advisors to understand if you are subject to filing obligations. For more information: <https://www.canada.ca/en/revenue-agency/services/tax/trust-administrators/t3-return/new-trust-reporting-requirements-t3-filed-tax-years-ending-december-2023.html>

¹ This is the definition of a bare trust according to the CRA: <https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/p-015/treatment-bare-trusts-under-excite-tax-act.html>

This is not intended to be a comprehensive or legal discussion of bare trusts.

Is Your Day-to-Day Living Impaired? The Disability Tax Credit May Offer Support

There has been a rise in the number of Canadians living with a disability,¹ yet many are unaware that those affected may qualify for the Disability Tax Credit (DTC).

As the population ages, more elderly individuals are being diagnosed with physical or mental disabilities. With greater awareness, children are now being diagnosed at an earlier age. Yet, many are not aware that a loved one may qualify for the DTC, such as in these situations:

- A child suffering from ADHD;
- A senior afflicted with cancer or Alzheimer's;
- An individual with Type-1 diabetes.

Eligibility for the DTC is dependent on how the disabling condition affects day-to-day living, not the diagnosis itself. In general, this includes those who suffer from a prolonged and present physical or mental impairment at least 90 percent of the time, for a continuous period of at least 12 months and are unable to perform certain functions necessary for everyday life (or it takes three times longer than if not impaired). The individual must be certified by a medical practitioner and an application must be approved by the Canada Revenue Agency (CRA).*

Why is the DTC a valuable wealth management tool?

1. Offers substantial tax benefits. This is a non-refundable tax credit that can be claimed on an income tax return. The federal disability amount for the 2023 tax year is \$9,428 for those 18 years and older, with an additional \$5,500 supplement for those under age 18.

2. Potentially retroactive. If you were eligible for the DTC in past years but did not claim it, you may be able to claim it going back 10 years. A credit retroactively applied may result in a refund on previous tax returns.

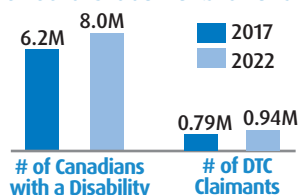
3. Beneficial, even if the individual has no taxable income. Any unused amounts may be transferred to an eligible supporting family member for that tax year, helping to offset their taxable income.

4. A gateway to other benefits. The DTC can help access other important benefits, notably the Registered Disability Savings Plan (RDSP), which allows up to \$200,000 of after-tax funds to grow on a tax-sheltered basis, subject to conditions. The RDSP offers the opportunity for \$3,500 in federal matching grants annually, to a lifetime maximum of \$70,000, depending on the beneficiary's family income and amount contributed. There are other federal and provincial/territorial benefits and programs. The DTC may also support the creation of a qualified disability trust, a valuable estate planning tool, to permit income to be taxed at graduated rates.

1. <https://www150.statcan.gc.ca/n1/en/daily-quotidien/231201/dq231201b-eng.pdf>; *See: <https://www.canada.ca/en/revenue-agency/services/tax/individuals/segments/tax-credits-deductions-persons-disabilities/disability-tax-credit.html>

The DTC: Are There Barriers to Access?

Despite a rise in Canadians with a disability, the number of DTC claimants remains low.



<https://www150.statcan.gc.ca/n1/en/daily-quotidien/231201/dq231201b-eng.pdf?st=GqW7B2h5>; <https://www.canada.ca/content/dam/cra-arc/prog-policy/stats/dtc-stats/dtc-2022-tb14-en.pdf>

A Case Study: Planning a Child's Future

A woman has a six-year-old daughter who has been diagnosed with ADHD and developmental coordination disorder. After the father passed away, the mother applied for the DTC to help set up a qualified disability trust — a Henson trust — so that income used to support her daughter will be taxed at marginal tax rates, instead of at the highest tax rates applicable to most trusts. She was recently approved by the CRA, including retroactive disability tax credits for the past six years that resulted in a tax refund totaling over \$11,000. These funds can be used to contribute to the RDSP to plan financially to support her future.



With the compliments of...

Tim Mahoney, CIM®

Investment Advisor

Portfolio Manager

204-949-7881

tim.mahoney@nbpcd.com

Garett Surcon, CIM®, FCSI®

Wealth Advisor

Portfolio Manager

204-949-8014

garett.surcon@nbpcd.com

Scott Kok

Associate

204-949-7899

scott.kok@nbpcd.com

BMO Nesbitt Burns Inc.

1700 - 201 Portage Ave.

Winnipeg, MB R3B 3K6

Toll Free: 1-800-506-0005

Fax: 204-944-0828



BMO Private Wealth is a brand name for a business group consisting of Bank of Montreal and certain of its affiliates in providing private wealth management products and services. Not all products and services are offered by all legal entities within BMO Private Wealth. Banking services are offered through Bank of Montreal. Investment management, wealth planning, tax planning, and philanthropy planning services are offered through BMO Nesbitt Burns Inc. and BMO Private Investment Counsel Inc. Estate, trust, and custodial services are offered through BMO Trust Company. Insurance services and products are offered through BMO Estate Insurance Advisory Services Inc., a wholly-owned subsidiary of BMO Nesbitt Burns Inc. BMO Private Wealth legal entities do not offer tax advice. If you are already a client of BMO Nesbitt Burns Inc., please contact your Investment Advisor for more information. Nesbitt Burns Inc. is a member of the Canadian Investor Protection Fund and the Canadian Investment Regulatory Organization. BMO Trust Company and BMO Bank of Montreal are Members of CDIC. BMO (M-bar roundel symbol) is a registered trademark of Bank of Montreal, used under licence.

This publication is for informational purposes only and is not and should not be construed as professional advice to any individual. Individuals should contact their BMO representative for professional advice regarding their personal circumstances and/or financial position. This newsletter was produced by J. Hirasawa & Associates, an independent third party for the individual Investment Advisor noted. The calculation of performance data set forth herein has been prepared by the author as of the date hereof and is subject to change without notice. The author makes every effort to ensure that the contents have been compiled or derived from sources believed to be reliable and contain information and opinions, which are accurate and complete. The information contained in this publication is based on material believed to be reliable at the time of publication, but BMO Private Wealth cannot guarantee the information is accurate or complete. Opinions, estimates and projections contained herein are those of the author as of the date hereof and are subject to change without notice and may not reflect those of BMO Private Wealth. Individuals should contact their BMO representative for professional advice regarding their personal circumstances and/or financial position. Please note that past performance is not necessarily an indicator of future performance. All rights are reserved. No part of this publication may be reproduced in any form, or referred to in any other publication, without the express written permission of BMO Private Wealth. BMO Nesbitt Burns Inc. is a wholly owned subsidiary of Bank of Montreal. If you are already a client of BMO Nesbitt Burns Inc., please contact your Investment Advisor for more information.