RAYMOND JAMES | DOUGLAS DUNCAN wealth management

SEPTEMBER 2021 NEWSLETTER

	Sept. 30/20 Close	June 30/21 Close	Sept 30/21 Close	90-Day % Change	1-Year % Change
S&P 500*	3,363	4,297	4,308	0.3%	28.0%
S&P/TSX Composite	16,121	20,165	20,070	-0.5%	24.5%

**In US Currency*

Source: FactSet

Published for the friends and clients of

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As of Sept 30, 2021 *Source: FactSet*

The third quarter of 2021 has seen markets level out in most sectors. While we continue to see tailwinds from increased vaccine adoption and improving economic numbers, the market is looking ahead at potential headwinds. Firstly, inflation has been increasing, which is pulling long term bond yields up with it. Investors have concerns about increasing government deficits, and a large Chinese real estate company called Evergrande is experiencing financial difficulties. With $300 billion US of bonds outstanding, there is a concern that a potential default could cause disruption to Western markets.

The one year performance of most of our holdings remains excellent, and we are grateful that we have participated in the market performance and avoided the more challenging sectors.

TAX THE RICH!

Whether you reside in the US, Canada or numerous other countries around the world, we live in an era where voters are looking for a pile of free goodies from the government with the assurance that someone else will pay for them. Affluent taxpayers have not been helped by a couple of high profile billionaires offering exceptionally wealthy people six minute rides to space for $450,000.

We feel a safe bet is that in not too long the new Canadian government will pass sweeping tax increases, with the promise that only the wealthiest few will pay. The problem with the arithmetic is that Canada's 2020/21 budget deficit was $354.2 billion, and the 2021/22 budget deficit is expected to be $154.7 billion (Parliamentary Budget Office).

Canada has 53 reported billionaires with a combined estimated net worth in the $100 billion range (Global WealthX Billionaire Census). Even if Canada followed the 1919 Soviet method for reducing income inequality and confiscated 100% of their assets at gunpoint this would only account for about eight months of our current deficits. For this reason governments will have to reach much further down the income scale to pay for their promises.

WHO ARE THE RICH?

Politicians with the "tax the rich" slogan have a huge messaging advantage in that very few people perceive themselves as rich. If you have a net worth of $30,000 you likely think of yourself as average, but your neighbour with $60,000 is rich. If you have a net worth of $3,000,000 you likely think of yourself as average, but your neighbour with $6,000,000 is rich. If you pass away with no surviving spouse, and have an RSP or RIF in excess of $222,420, you will be one of Canada's highest 1% of income earners in your last year with the accompanying 53.5% marginal tax rate. People currently cheerleading a tax increase for "the rich" may have an unpleasant tax bill waiting for them.

WHAT CAN YOU DO TO SOFTEN THE NEW TAX BLOW?

We have been spending a lot of time thinking of how increased taxes will affect our clients, and which strategies could effectively reduce the tax increase.

Most of the methods to avoid excess taxes are well known and you are likely utilizing them already. The use of TFSAs, RRSPs, RRIFs, and dividend paying Canadian companies are well accepted by most investors. Strategies that may not be quite as well used include:

1. If you are married, living off the higher earners' income and saving the lower earners' income will lead to more of the investment income being taxed at the lower tax rate. If practiced over a long period of time this can lead to significant tax savings.

2. In the event of a wealth tax, gifting capital that you may not need to adult children can help reduce the tax. There is a downside to this strategy, if the gift leads to dependence, laziness and frivolous spending, paying the wealth tax may be a better option. The other downside is if the donor has an unexpected financial setback such as divorce, or need for expensive healthcare, they may find themselves running out of capital.

3. Currently the capital gains marginal tax rate is half that of interest or employment income. Various political promises include an increase in the capital gains inclusion rate. One strategy would be to save capital losses for a future tax year, when the capital losses could be written off against gains taxed at the higher rate.

4. We don't usually advocate the most aggressive tax strategies, mainly because these are often accompanied by a high risk of losing money or having your capital tied up when you really need it. Years ago Ian met a very high income professional who was very confident that putting all of his savings into a tax sheltered insurance policy was a fool proof strategy. His plan was working well until he got divorced, remarried, and found himself with an additional house to buy, alimony payments, and two extra children to support. The insurance policy is tied up for his entire lifetime, no doubt causing him more financial problems than otherwise.

5. There is a legal tax avoidance strategy for an individual who owns a large position in a non-dividend paying stock, for example Tesla, Google, or Amazon. These shares have greatly increased in value over time, making their founders extremely wealthy. It is claimed that some of these significant shareholders have not sold their shares, but borrow money against them to finance their lifestyles. Eventually the tax will be paid when the positions are sold, but there is an opportunity to temporarily report very low income and pay minimal taxes.

   We do not believe that this strategy is used as much as reported, due to the risk. For example, if a company founder sells shares periodically to purchase their home and diversify into other holdings they pay ongoing taxes but have other assets they can rely on in case the company gets into trouble in the future. If the founder keeps all of their shares without selling and accumulates ever increasing margin debt to finance their lifestyle, they will be in trouble if there is a recession or if the company loses its competitive advantage. You would not have wanted to use this strategy with Nortel, Bombardier, or other stocks that have fallen from grace.

We will wait and see as to which tax changes become law, in the meantime if you have any questions on how they could affect you, please call Meaghan or Mark.

<u>OPTIONS WHEN ASSISTING CHILDREN WITH HOUSE PURCHASES</u>

Buying a first home has become increasingly difficult over the last few years, as house prices in most parts of Canada have increased significantly. Even children and their spouses with good careers have a daunting challenge to save a down payment and have affordable mortgage payments.

Financially secure parents are often finding themselves assisting their children with house purchases, and it is good to know some of the options:

1. Make an outright gift to your child. The advantage is this choice has no legal costs and is simple. The disadvantages include if the gift is towards a matrimonial home and your child gets divorced, their ex-spouse may be legally entitled to 50% of your gift. In addition, if the children get into financial difficulties, your gift has no priority over other creditors and the capital can be lost.

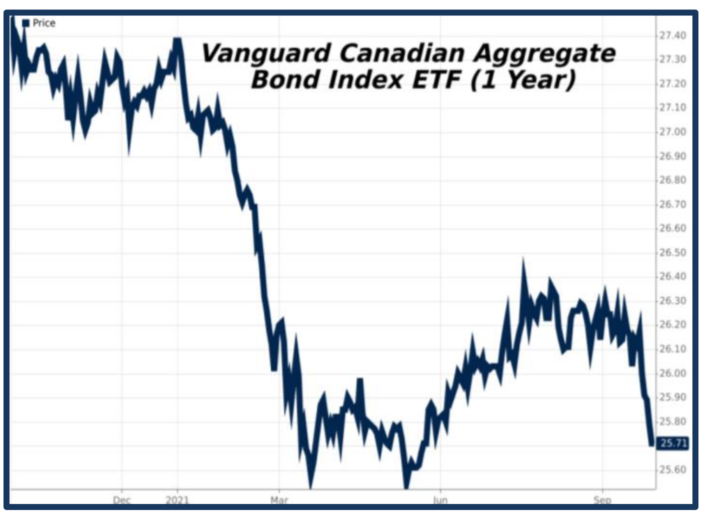
2. Offer your child a second mortgage on their home with no payments and no interest. The advantage is that the capital is more secure in the event of your child getting divorced, and the mortgage has priority over other creditors (other than the first mortgage). The disadvantage is that there are legal fees, and if you end up paying a wealth tax in the future, this mortgage is part of your assets. You may end up paying an annual wealth tax even though you are not earning any income on it and don't expect to be repaid.

3. Make a gift to your child, on the condition that their spouse sign a legal agreement ensuring this gift will not be part of the matrimonial assets. This will require their spouse to get independent legal advice. The advantage is that the gift stays with your child in the event of divorce, and will not be part of the parents' assets in the event of future wealth taxes. The disadvantages are the required legal fees, and the potential hurt feelings of your son or daughter-in-law.

We are not licensed to give legal advice, but these are options to consider if you plan to provide assistance with your child's house purchase. We recommend that you seek legal advice if your financial contribution is significant to you.

FIXED INCOME

One year ago 5-year Canada bonds were yielding 0.357%, and 10-year Canada bonds were yielding 0.562%. Currently the 5-year yield is 1.12% and the 10-year yield is 1.52%. This has had a negative effect on the prices of bonds, bond funds and bond ETF's. Over the last 12 months, the Vanguard Canadian Aggregate bond Index ETF is down -6.1%, and the Vanguard Canadian Long-Term Bond Index ETF is down -11.4%, due to its longer duration.



As of Sept 30, 2021 *Source: FactSet*

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As inflation is still considerably higher than bond yields we feel that there is more downside risk in bonds. This leaves us short term GICs or daily interest accounts as the only guaranteed option. These all lose money after inflation, so investors continue to have to accept equity risk to earn a return in excess of inflation.

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VACCINATION POLICY

Raymond James Ltd. values the health and well-being of our employees and clients. In line with industry standards, Raymond James Ltd. has adopted a COVID-19 vaccine policy, commencing Monday, October 25. This policy will require any individual attending Raymond James' corporate branches and offices to show proof of full COVID-19 vaccination status.

Should this present a difficulty for you, please contact Meaghan or Mark to find a suitable alternative.

SUMMARY

In light of the last year's excellent market performance, and the speculation that exists in some parts of the market, we are more cautious than usual. This does not mean aggressively liquidating stock positions, but instead calls for keeping a cash reserve to ensure that you have liquidity for monthly income needs and future opportunities. We also want to be sure that we are prepared for the expected tax changes so we can develop a strategy to minimize the cost as much as possible. If you have any questions on your financial risks and opportunities, call Meaghan or Mark.

Mark Duncan	**Meaghan Douglas**	**Ian Douglas**	**Lisa Cajolet**	**Sara Bessant**	**Heath Dean**
Financial Advisor	Financial Advisor	Senior Vice President	Administrative Assistant	Administrative Assistant	Administrative Assistant

If you have friends or family who have expressed an interest in finding a new advisor, we would be delighted to hear from you. Just call our office at 250-729-2830 and we'll take it from there. Thanks!