UPPER CANADA CAPITAL
PRIVATE WEALTH MANAGEMENT

2022 May Team Newsletter

From the desk of Kurt Rosentreter, CPA, CA, CFP, CLU, FSCI, CIMA
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Are you turning age 65 this year? If you are still in the workforce, please ensure we talk about deferring your Old Age Security benefits before your birthday. This will help to avoid potential claw back of benefits.

Are you still in an open, floating mortgage with a variable interest rate and wondering what to do as market interest rates rise? Chances are you should switch to a closed rate for a few years. Talk to the team for feedback on your situation.

From the desk of Frank Valicek, CFP, CIM
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Prescribed rate loans to family members can be used as a tax-saving strategy to split taxable investment income with a lower income spouse, common-law partner or other family member.

The record low prescribed loan rate of 1% is set to rise on July 1st but if you establish the loan by June 30th you can lock-in the current low rate for the duration of the loan. If there's a large difference in your household's marginal tax rates and you're planning to save a significant amount to taxable investments, now is an opportune time to lock in this rate for family loans as an income splitting opportunity.

We would be pleased to work with your accountant to help set this up if applicable.

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From the desk of Jordan Campbell, CFA
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We always tell ourselves that we are long-term investors, but when the markets get volatile like they are now, it can get hard to look beyond the current situation. No one likes to see their portfolio drop in value even if they know in the back of their head that it will eventually recover.

I went back and re-read the newsletter piece in our March 2020 email during the height of the first Covid wave when markets were moving up and down 10% a day (way more than today). I did this to see what my frame of mind was during a much worse time.

I've included an abridged version of that piece below from March 2020 in the hope that it can give you a good perspective on how to think about volatile times in the market.

What do I do during times of market volatility?

The Economics Textbook Answer
When markets are volatile like they are, history has shown us that the best course of action is to hold onto to your investments. In the past, good quality investments have come back from their lows and gone on to higher highs once periods of crisis have ended. In fact, the investment management firm Vanguard did a study that showed the value of holding on to your investments through volatility. They found that the average investor actually underperformed the very investments that they had in their portfolio. How is this possible? Well, their research showed that investors too often chased performance, selling when markets were dropping (at the lows) and then buying back only after the markets had already risen significantly (at the highs). As a result, the average investor missed out on periods of gains and underperformed. The best course of action is simply to stay put.

Further to this, if you do have extra cash available, a long-time horizon and a higher risk tolerance, times like this may be good to start investing some of your money. As famed investor Warren Buffett has said, "Be greedy when others are fearful." With that *said, we would caution that any investment made during a volatile time could still fall significantly before a potential rebound.*

The Psychology Textbook Answer

While holding on may be the best thing you can do for your wallet, it might not be the best thing for your wellbeing. As your advisors, the one thing that we never forget is that this is your money. The money you worked hard your whole life for. Your retirement money. Your children's education money. When money is tied up in so many of life's goals, it is hard to separate emotion from it. Even though gritting your teeth through volatility may be the best answer, if it causes stress, anxiety and sleeplessness, it is not good for your health. As a middle ground for clients, we have sometimes recommended "selling your profits." That is, if you invested $100 originally into an investment and it is now worth $110, we would sell just the $10 of gains. This way you are still well-invested for when the market rebounds, but you also have cash to cushion your portfolio against further market volatility.

The right answer for what you should do depends on your personal situation. As your advisors, we strive to know you, your goals, your dreams and your finances. We are here to help you through this period, advise you and guide you through the uncertainty.

If you have any questions, concerns or just want to talk about your portfolio, we are here to help. Please contact us any time.

From the desk of Mathew Cain, CIM
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The Highest GIC and Bond Yields We've Seen in a Decade

The Bank of Canada and other central banks of the world aggressively cut interest rates in 2020 as a means of promoting growth in a precarious economy. This however, led to increased spending while consumers were forced to stay indoors during the pandemic, which ultimately led to higher inflation. While no one likes higher prices at the grocery store and the gas pump, this rising inflation has pushed the central banks to raise interest rates faster to slow spending as credit gets more costly.

As a result, fixed income investments such as GICs and individual corporate bonds have some of the highest yields that we've seen in a decade. GIC rates are now well above 3% for a one-year GIC and longer-term GICs are as high as 4%*. Further, our team can offer GIC rates from twenty different institutions which are insured by the Canada Deposit Insurance Corporation (CDIC) which provides your portfolio with a more competitive advantage over most institutions.

Separately, individual corporate bonds are now yielding above 4% as well (depending on several factors such as quality, maturity date, price, availability and more)*.

We are standing by during these volatile times ready to discuss your portfolio and how fixed income investments play a role in your retirement.

Data sources

- *GIC rates are sourced from gicsonline.com as of May 17th, 2022 and are subject to change without notice.*
- *Individual corporate bond data is sourced from CBID as of May 17th and is subject to change daily without notice.*

From the desk of Gerdi Lito, CFA
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Annuities

With interest rates rising, annuities can be an interesting option to consider for your retirement cash flow.
Annuities are insurance contracts where you pay the insurance company an upfront lumpsum in exchange for periodic payments (typically monthly) for the rest of your life.

When buying an annuity, you are practically giving a part of your retirement money to the insurance company in exchange for a cash flow pension until you or your partner dies. Annuities are considered part of your fixed income assets by our team, they generate income but have no growth potential (unlike the stock market investments that you may hold in your portfolio).

Annuity payments depend on a few factors which include:

- **Age and gender**. Insurance companies calculate payments based on mortality tables (multi year statistics on longevity) which depend on age (if you are young you are expected to live longer so the monthly payment will be less) and gender (statistics show that women live longer than men).
- **Guarantee**. You might be asking what happens if I buy an annuity and then I die three months later in an accident? Well, unless the annuity has a guarantee period, the payments will stop when you die. The guarantee period makes sure that your family gets the payment for the entire guarantee period that can be five years, ten years or more. The higher the guarantee period, the lower the monthly payment.
- **Inflation adjustment.** Since annuities are designed to pay you for the long-term, you may want to have the monthly payment increase each year at a certain amount (for example 2%) to offset rising prices. The bigger the inflation adjustment, the lower the monthly payment.
- **Interest rates when the annuity is purchased**. The higher the interest rates the higher the payment you can get. For this reason, annuities need to be considered during rising interest rates as you can "lock in" a better payment.

From the desk of Jeton Spahiu, CIM
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What do the Economic Leading Indicators tell us?

Our team continues to track key economic leading indicators to help give us an idea of the direction of the economies around the world. Below you can find some of the economic leading indicators that we constantly monitor:

- **The Conference Board Leading Economic Index:** The index is a composite of ten indicators that seek to find turning point patterns in economic data. Some of the most watched individual indicators within the index include money supply (M2), stock prices (500 common stocks), consumer expectations, housing permits, and manufacturers' new orders.

- **The U.S. Treasury Yield Curve:** The curve highlights the spread between the 10-year and 2-year U.S. treasury bond yield. An inverted/negative (below zero) yield has predicted the past seven recessions. The yield briefly inverted in March of this year – for the first time since 2019.

- **The Purchasing Managers' Index (PMI):** The index prevails the direction of economic trends in the manufacturing and service sectors. The PMI is based on a monthly survey of supply chain managers across 19 industries, covering both upstream and downstream activity.

- **Retail Sales:** This indicator tracks the amount of spending in an economy. It provides information on how much money consumers are spending on various goods & services and highlights any inflationary pressures that may exist. Healthy retail sales figures typically elicit positive movements in equity markets.

- **South Korea Exports:** Korean trade data usually comes before the first trading session of the month in Asia, which makes it the first of the world's major economic indicators to be released. Because Korea's exports are heavily exposed to China and Japan — the world's second and third largest economies — it is considered to have strong predictive power.

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- **German IFO:** This is one of the leading indicators of health in the euro economy and it is based on a survey of about 7,000 executives in German manufacturing, services, retail, wholesale, and construction companies.

Most leading indicators in US & Canada are still showing a steady economic growth for the rest of 2022. However, downside risks to the growth outlook remain – associated with supply chain issues, inflation, rising interest rates, tightening monetary policies, and persistent labour shortages. On the other hand, the German IFO business climate index – which highlights the health of the overall euro economy – decreased over the last two months due to the war in Ukraine.

It remains to be seen what will happen for the remainder of the year, but our team is optimistic about the global economic outlook despite all the above-mentioned disruptions. Our team will continue to analyze the leading indicators and other economic metrics as to have a better idea of global trade, global capital flow, and economic trends between countries around the world.

From the desk of Monika Kucinskaite
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Can you take former employer pensions with you?

You may be thinking about what happens to your pension plan once it is time to retire or accept a new job offer. Generally, you take the retirement savings account with you when you leave. These savings might be a significant portion of your investment portfolio which you may be able to consolidate it into your personal RRSP or a Locked-In Retirement Account (LIRA). Speak to our team to find out what options are available to you and send us the letter from your pension plan administrator which you should get within 30 days of the date that you terminate your employment. The options vary significantly from one plan to another and we will help you make the most appropriate decision based on your personal circumstances.
Click here to read about some of the more common options.

From the desk of Evan Campbell
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Real Return Bonds (RRBs) in an Inflationary and Rising Rate Market

Real return bonds are a type of government bond which are designed to protect investors from the effects of inflation. They seek to do this by adjusting both their face value and interest payments semi-annually to match changes in the Consumer Price Index (CPI). This, in theory, will offset the impact of increases in CPI and might look attractive during high inflation or rising inflation environments.

However, there are several things to consider when looking at the viability of Real Return Bonds in the current market:

1. Real return bonds tend to be longer term (10-30 years), and the price you pay for real return bonds reflect the anticipated rate of inflation from the date of issue. They only generally protect against *unanticipated* rises in inflation[i].

2. Real return bonds are also subject to decreases in face value and interest rate payments due to decreases in the CPI. In prolonged periods of deflation, with a negative inflation rate, the principal value could even fall below the purchase price[ii].

3. Because the nominal yield for the interest payments of Real Return Bonds depends on the inflation through the term of the bond itself, the income portion of the bond is not entirely fixed and will have less appeal if you require a steady cash flow[i].

4. Real return bonds are still subject to price volatility due to market conditions. If you sell the bond before maturity the price you will receive will be based on the current interest rate and could be less than what you paid for the bond. The market price of bonds can be heavily impacted in a rising rate environment.

In this sense, Real Return Bonds may only protect against inflation but not rising interest rates[ii].

5. The inflation adjustment period for the bond is semi-annual, and is calculated using the all-in-one, seasonally adjusted CPI. This inflation calculation uses a lag of about 3 months, which can affect the integrity of the trading price during periods of rapid inflation[i].

Real Return Bonds sound great to own during a period of high inflation but in fact they have been problematic as investment products in the past and have not always acted as expected. Talk to one of our licensed team members if you have questions about inflation related products.

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[i] *"What Are Real Return Bonds." CIBC, CIBC Investor's Edge, 24 Aug. 2021, https://www.investorsedge.cibc.com/en/learn/what-are-real-return-bonds.html.*

[ii] *Pohl, Karl Otto. "All That Glitters Is Not Gold–Real Return Bonds May Not Be as Promised." Manulife Investment Management, 2 Dec. 2021, https://www.manulifeim.com/retail/ca/en/viewpoints/capital-markets-strategy/all-that-glitters-is-not-gold-real-return-bonds-may-not-be-as-promised#:~:text=Real%20return%20bonds%20are%20a,the%20life%20of%20the%20bond.*

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Disclosures

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