Annual letter to clients 2024

Michael Kirkpatrick

In our eighth annual letter to our clients, we will share some of the highs and lows of the past year.

Equities and fixed income finished in positive territory.
From January 1 to December 19, 2024, the Canadian stock market (S&P/TSX Composite Index), was up 16.5%. The world stock market (MSCI World Index), was up 20.6% over the same time period, fixed income, measured by the Canadian Bond Universe (XBB), was up 3.12%.

What a year! I do not think anyone thought 2024 would be this strong for stocks. What more could we ask for? Just about every asset has gone up in value except stocks in the Canadian telecom sector and the Canadian dollar.

We welcome these great returns, and we do our utmost to take profits and rebalance portfolios tax efficiently. Over 30% of the S&P500 is made up of technology stocks which is on my mind as it would not be good if that sector and the Magnificent Seven stocks (Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta, and Tesla) pulled back. That said, all the other sectors in the S&P 500 performed well except for energy which was down only slightly.

What would we have done differently?
If we could go back to January 1, we would have allocated more money to U.S. equities (the S&P 500) which were up 26.6% year to date and gold which was up 26.2% year to date.

Market highlights and lowlights
There was lots of noise in 2024. Interest rates changing and their impact on businesses and the stock market. Inflation worries, elections, geo-political turmoil…the list of reasons not to invest goes on and on. I guess you could say 2024 was no different from any other year. Lots of doomsday headlines and reasons to stay in cash. Our response to which has been to maintain a severely normal balanced portfolio and to try to ignore all the bad news. Protecting our families from the erosion of their purchasing power due to inflation is a central focus of our investment philosophy. Our unglamorous answer to those woes is to own assets and businesses that will keep up or outpace inflation. A balanced portfolio provides exposure to growth to protect us from inflation and it provides us fixed income to shield us from stock market pull backs.

The chart below shows the S&PTSX index in 2024. It was a great year, but it was bumpy. Those pullbacks that you see in the chart below were not enjoyable.

What lies ahead for us? Can the momentum keep going throughout 2025? Our Portfolio Advisory Group summarizes their thoughts in their 2025 Global Outlook. Meanwhile, we remained focus on ensuring you have the right mix to meet your family's needs and we also make sure we are looking at the big picture by reviewing and making sure your tax plan is sound, your estate plan is in order, and your projections are up to date.

Wealth management highlights and updates

Estate planning:

Helping clients plan their estate is a key part of what we do. We encourage you to use us as sounding boards to discuss your estate plans and to help provide you with resources to aid you in your estate planning journey.

If you have completed your Will and Power of Attorney (POA) we would welcome a copy so that we can keep them on file and ensure the content is consistent with the beneficiary designations made in your accounts and insurance policies. It can be a good idea to communicate your estate plan to your named executor, Power of Attorney, beneficiaries, and family so that everyone knows what to expect.

If you have elderly parents, please make sure they have gone through the estate planning process and make sure you know where your parents' Will and POA documents are stored and who their key contacts are. Encourage your parents to consolidate their assets with one institution as this will make the executor's life much easier when they must step into that role.

Here are our articles, and guidebooks to help you with the estate planning process. We also are happy to introduce you to our Royal Trust Advisors who can share with you how Royal Trust might be able to help you in the estate planning process.

Elder-care planning

Here is our latest video which discusses strategies and resources to navigate elder care planning issues: Plan for aging well - RBC Wealth Management. Financial abuse of seniors continues to remain a concern. This article explains what it is and how to recognize the signs: Understanding Financial Abuse - My Money Matters.

Be cyber-aware

It is critical that we all become more cyber-aware and safeguard our online activities. When sending sensitive information to us we encourage you to use the secure messaging tool in the RBC DS portal or use our secure file sharing link. When you need cash sent to your bank account on file, please call us to verbally confirm the amount and the destination bank account number. These are best practices to keep you safe from cyber-fraud.

Auto-funding TFSAs

We can now fund your Tax-Free Savings Accounts (TFSAs) automatically using cash from your bank account or non-RSP account. This ensures that your TFSA is fully funded on January 1st of each year. Please reach out if you would like to have this set up. The 2025 TFSA dollar limit is $7,000.

The Smith Manoeuvre

The Smith Manoeuvre is a debt conversion strategy where a homeowner converts their non-deductible mortgage debt into tax-deductible debt over time. If you have a mortgage, we encourage you to investigate this tax planning strategy. If you come into a windfall of cash and are wondering if you should pay down your mortgage, we encourage you to consider the following:
When you make an extra payment on your mortgage:
-does that extra payment increase the value of your home?
-does that extra payment reduce your monthly mortgage payment?
-do you have access to that cash after you make that extra payment?
The answer to all the above is no and it begs the question: does it make sense to make an extra payment on your mortgage? We are happy to guide you through this thought exercise and figure out what is best for you.

The problem in growing and protecting your wealth

Getting a higher rate of return is not our biggest problem. In fact, chasing after higher returns can lead to problems namely, experiencing loss of capital or negative returns. Staying out of negative territory is a key to building wealth.

We believe that tax is one of the biggest problems our families and business owners face while trying to grow and protect their wealth.

If you believe that tax rates are going down, then this may not be a problem for you.

That said, the planned increase in the capital gain tax inclusion rate has left many families and business owner's wondering, what is next? The Financial Post tell us that "The taxman is coming for our homes"

All that to say, we are in a high tax environment and it does not seem to be changing anytime soon. If you look at Step 2 of your tax return, under Total Income you can see there are lines where we input investment income that comes from dividends, interest and capital gains realized in nonRSP or taxable accounts:

Step 2 – Total income

As a resident of Canada, you need to report your income from all sources inside and outside Canada.

Employment income (box 14 of all T4 slips)			10100	1
Tax-exempt income for emergency services volunteers		10105		
Commissions included on line 10100 (box 42 of all T4 slips)		10120		
Wage-loss replacement contributions		10130		
Other employment income			10400 +	2
Old age security (OAS) pension (box 18 of the T4A(OAS) slip)			11300 +	3
CPP or QPP benefits (box 20 of the T4A(P) slip)			11400 +	4
Disability benefits included on line 11400 (box 16 of the T4A(P) slip)		11410		
Other pensions and superannuation			11500 +	5
Elected split-pension amount (complete Form T1032)			11600 +	6
Universal child care benefit (UCCB) (see the RC62 slip)			11700 +	7
UCCB amount designated to a dependant		11701		
Employment insurance (EI) and other benefits (box 14 of the T4E slip)			11900 +	8
EI maternity and parental benefits, and provincial parental insurance plan (PPIP) benefits		11905		
Taxable amount of dividends from taxable Canadian corporations (use Federal Worksheet):				
Amount of dividends (**eligible** and **other than eligible**)			12000 +	9
Amount of dividends (**other than eligible)**		12010		
Interest and other investment income (use Federal Worksheet)			12100 +	10
Net partnership income (limited or non-active partners only)			12200 +	11
Registered disability savings plan (RDSP) income (box 131 of the T4A slip)			12500 +	12
Rental income (see Guide T4036)	Gross 12599		Net 12600 +	13
Taxable capital gains (complete Schedule 3)			12700 +	14
Support payments received (see Guide P102)	Total 12799		Taxable amount 12800 +	15
Registered retirement savings plan (RRSP) income (from all T4RSP slips)			12900 +	16
Taxable first home savings account (FHSA) income (boxes 22 and 26 of all T4FHSA slips)			12905 +	17
Taxable FHSA income – other (boxes 24 and 28 of all T4FHSA slips)			12906 +	18
Other income (specify):			13000 +	19
Taxable scholarships, fellowships, bursaries and artists' project grants			13010 +	20
Add lines 1 to 20.			=	21
Self-employment income (see Guide T4002):				
Business income	Gross 13499	Net 13500		22
Professional income	Gross 13699	Net 13700 +		23
Commission income	Gross 13899	Net 13900 +		24
Farming income	Gross 14099	Net 14100 +		25
Fishing income	Gross 14299	Net 14300 +		26
Add lines 22 to 26.	Net self-employment income	= ►	+	27
Line 21 plus line 27			=	28
Workers' compensation benefits (box 10 of the T5007 slip)		14400		29
Social assistance payments		14500 +		30
Net federal supplements paid (box 21 of the T4A(OAS) slip)		14600 +		31
Add lines 29 to 31 (see line 25000 in Step 4).		14700 = ►	+	32
Line 28 plus line 32			**Total income** 15000 =	33

For clients looking to reduce the amount of tax they pay on the above investment income, but also looking to retain control of their capital, we have been shifting funds from taxable accounts into carefully designed participating whole life insurance policies. It has been helpful to be able to move funds from a taxable account into a tax-exempt account. This helps to reduce the amount that goes to tax now and in the future. The fact that the policy owner retains control of the cash values and can access cash if needed via a tax-free policy loan provides much flexibility.

In some cases, though, a client may not be insurable. In cases like this, we implement the Cascading Life Insurance strategy which we discuss in this article and below is a visual depiction of the strategy:

Infinite Banking Concept (IBC)

Over the past year, most insurance companies maintained their dividends to policy holders while one increased their dividend. In both cases, policyholders know that their cash values and death benefits are increasing free of tax which is great.

Wealth Management (WM) Online

With Canada Post going on strike, the importance of getting familiar with the RBC DS online portal, which we call WM Online is front and centre. In the portal, you can switch from paper statements to eStatements and view your statements and tax packages which is very helpful. WM Online is also where you can view your accounts, move cash into your accounts via real time fund transfers, update your address or contact details, and communicate with us using your secure inbox. I encourage you to get comfortable using it,and we are happy to help you get set up as well. Note that you can log in via the desktop website or via the RBC Mobile app on your phone or handheld device.

2024 Taxes

As mentioned above, your 2024 tax documents can be accessed online, so if you would prefer to receive your tax documents electronically instead of by mail, please let us know, or you can make the switch via WM Online (click on “Settings,” then the “Document Delivery” tab and then click on the “delivery type” drop down menu to make the change, followed by “save changes”).

Here is the link to our 2024 Tax Reporting Guide which contains all of the key dates for when your tax items will be available.

Education and business operations

Allison's growth in our practice continues as she has mastered many of the key skills in her role as associate. Her goal in 2025 is to begin the Wealth Management Essentials course which is exciting.

In 2024 I completed one accounting course at Carleton University: Auditing I. It only took me two attempts to complete this one course. I still have four more courses to finish in order obtain the post baccalaureate diploma in accounting but I am putting this on hold for now. I have been reading books and through this I get ideas that might be helpful to our clients. I then try to take those ideas and write articles to share concepts that I think can be helpful to our families. While it is time consuming, I get lots of joy from it and our hope is that they are helpful to you. Below are some of the books I read last year:
-How to listen when Markets Speak
-Titan: The Life of John D. Rockefeller Sr.
-What would the Rockefellers do?
-38 Letters from JD Rockefeller to his son
-The Practice of Philanthropy: A Guide for Foundations and Boards

These books helped inspire the following articles we wrote last year and provided some of the ideas for the Business Owner Planning talks we delivered:
Cascading Life Insurance
Critical Illness Insurance: Smart Investing for your child's future
Things Policy Holders Never Say

The more I learn, the more I can help add value and make a difference to you and your family.

Portfolio highlights and lowlights

On the fixed side of the portfolio, our worst performers were:

- VBG Vanguard Global (ex-US) Aggregate Bond Index ETF, which was up 0.98% (but note that last year it was one of our top performers and was up 6.12%); and
- QTIP Mackenzie US TIPS Index ETF (CAD-Hedged), which was up 0.38%.

You must love it when our worst performers are in positive territory. I wish every year could be like this. It really shows how good of a year it was for all assets.

Our best performers on the fixed side were:

- ZPR BMO Laddered Preferred Share Index ETF, which was up 25.36%; and
- CPD iShares S&P/TSX Canadian Preferred Share Index ETF, which was up 22.19%.

When was the last time you saw fixed income assets go up over 20% in one year? In 2023 wrote a piece called, "When interest rates go up, bond prices go down…until they mature." and in my 2023 Annual Letter I said "Now that interest rates have moved up, I think the future looks friendly for our fixed income holdings." As we can see from the above numbers, 2024 was very friendly for fixed income. Going forward I like how our fixed income holdings look. With the yield on our fixed holdings at over 4%, as I mentioned in my 2023 Annual Letter, this is as high I have seen in my 20 years in this business. If we can get over 4% per year from our fixed holdings over the long term, I am a happy camper.

On the equity side, our worst performers were:

- ZRE BMO Equal Weight REIT ETF, which was up 2.72% and note that in 2023 it was also one of our worst performers and it was down 6.02%. Clearly real estate has gone through a tough time over the last few years.
- PDN Invesco FTSE RAFI Developed Markets ex-US Small-Mid ETF which was up 0.81%.

Our best performers on the equity side were:

- VFV Vanguard S&P500 Index ETF, which was up 38.71%; and
- WXM CI Morningstar Canada Momentum Index ETF, which was up 34.71%.

Please do not get used to returns like that. This is not normal. I was not surprised to see VFV/S&P500 on this list since the Magnificent 7 performed well and since the USD went up vis a vis the Canadian dollar. WXM surprised me a bit as they are not overweight any one stock or sector which is impressive to deliver that result with a diversified basket of stocks.

Heading into 2025, we are getting decent interest from our fixed holdings and dividends from Canadian stocks seem interesting to me and they keep going up. These are all good things.

Going forward

As the below chart indicates, it is tough to predict which sectors will do well and which will underperform. Our strategy is to acknowledge that in the long run, all the companies in these sectors will be making more money and their stock prices will be higher, so we want to have exposure to all of them.

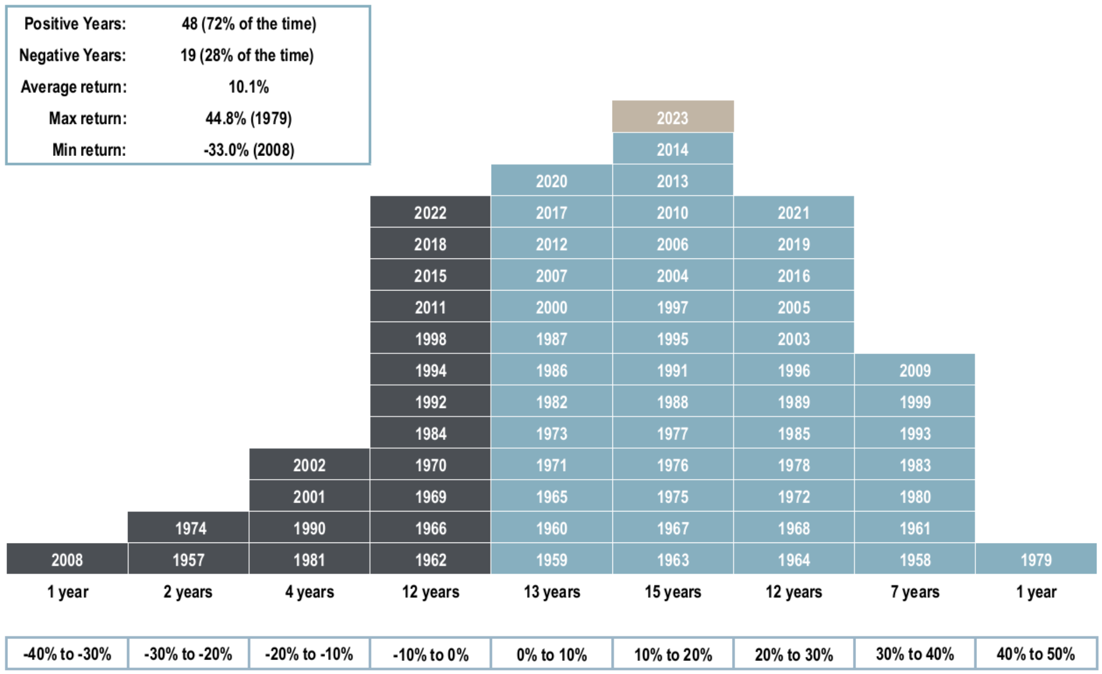
S&P/TSX Composite: Equity sector quilt

10-Year Ending 2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	10-Year Ending 2023	2024 Year To Date
Health Care 11.3%	Cons. Staples 49.1%	Info Tech 15.6%	Materials 41.2%	Health Care 34.1%	Info Tech 12.9%	Info Tech 64.9%	Info Tech 80.6%	Energy 49.0%	Energy 30.9%	Info Tech 69.2%	Info Tech 20.0%	Info Tech 44.0%
Comm. Services 11.0%	Info Tech 35.1%	Cons. Staples 12.4%	Energy 35.4%	Cons. Disc. 22.7%	Real Estate 2.0%	Utilities 37.4%	Materials 21.2%	Real Estate 37.4%	Cons. Staples 10.1%	Health Care 18.3%	Cons. Staples 13.6%	Financials 32.3%
Industrials 10.8%	Health Care 30.3%	Real Estate 7.0%	Financials 24.1%	Industrials 19.6%	Cons. Staples 2.0%	Industrials 25.5%	Industrials 17.0%	Financials 36.6%	Materials 1.8%	Financials 13.9%	Industrials 11.7%	Energy 28.4%
Energy 10.0%	Cons. Disc. 29.1%	Comm. Services 3.6%	Industrials 22.8%	Info Tech 16.8%	Comm. Services -0.8%	Materials 23.8%	Cons. Disc. 17.0%	TSX 25.2%	Industrials 1.5%	Cons. Staples 12.2%	Financials 9.5%	Materials 28.3%
Financials 9.7%	Real Estate 22.8%	Cons. Disc. -1.5%	TSX 21.0%	Comm. Services 14.7%	Industrials -2.4%	TSX 22.8%	Utilities 15.2%	Comm. Services 24.7%	Comm. Services -2.6%	Industrials 11.9%	Cons. Disc. 9.2%	TSX 25.8%
Real Estate 9.0%	Industrials 21.8%	Financials -1.7%	Utilities 17.6%	Financials 13.3%	TSX -8.8%	Real Estate 22.6%	TSX 5.6%	Cons. Staples 22.3%	TSX -5.8%	TSX 11.8%	Utilities 7.7%	Cons. Staples 19.8%
Utilities 8.0%	Utilities 16.1%	Utilities -3.5%	Comm. Services 14.6%	Real Estate 11.2%	Utilities -8.9%	Energy 21.7%	Financials 1.6%	Info Tech 18.4%	Cons. Disc. -6.0%	Cons. Disc. 11.0%	Real Estate 7.7%	Utilities 17.5%
TSX 7.9%	Comm. Services 15.5%	TSX -8.3%	Cons. Disc. 10.6%	Utilities 10.7%	Materials -9.2%	Financials 21.3%	Cons. Staples 4.2%	Cons. Disc. 18.4%	Financials -9.4%	Real Estate 6.9%	TSX 7.6%	Cons. Disc. 15.3%
Cons. Disc. 7.4%	Financials 13.7%	Industrials -11.1%	Real Estate 9.1%	TSX 9.1%	Financials -9.3%	Cons. Disc. 15.2%	Comm. Services -3.7%	Industrials 16.5%	Utilities -10.6%	Energy 6.7%	Comm. Services 7.1%	Industrials 14.0%
Cons. Staples 7.3%	TSX 10.5%	Health Care -15.6%	Cons. Staples 7.4%	Cons. Staples 7.7%	Cons. Disc. -15.9%	Cons. Staples 14.3%	Real Estate -8.6%	Utilities 11.6%	Real Estate -21.5%	Utilities 0.2%	Materials 5.2%	Health Care 13.0%
Materials 4.8%	Materials -2.5%	Materials -21.0%	Info Tech 5.2%	Materials 7.6%	Health Care -15.9%	Comm. Services 12.9%	Health Care -22.9%	Materials 4.1%	Info Tech -52.0%	Materials -1.3%	Energy 3.4%	Real Estate 12.3%
Info Tech -4.1%	Energy -4.8%	Energy -22.9%	Health Care -78.4%	Energy -7.0%	Energy -18.2%	Health Care -10.9%	Energy -26.5%	Health Care -19.6%	Health Care -61.6%	Comm. Services -3.9%	Health Care -23.7%	Comm. Services -13.2%

Source: RBC Wealth Management, Bloomberg; data through 11/30/24; 10-year periods are annualized

What will the TSX deliver in 2025? Tough to know but since 1957 the TSX has been in positive territory 72% of the time:

S&P/TSX Composite: Annual return distribution range (1957 – 2023)



Source: RBC Wealth Management, Bloomberg; data through 12/31/23

I am happy with our ETF models, but I continue to search for new ideas and concepts that will help to build and protect your family's wealth.

Thank You

Allison and I want to thank you for your trust, and we look forward to serving you in 2025 and beyond.

Here's to the end of 2024 and to the start of a New Year!

Michael Kirkpatrick