Dr. Patrick O'Brien's

Spring 2022 Client Note

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In time, this playful pair will trundle off into the distance.

Dear Clients and Friends:

I am very much looking forward to spring given that it feels a bit like we have had two years of winter starting with the lockdowns of February 2020, fires, and floods since then. The frogs are roaring away at night at our little farm and the forsythias are showing brilliant yellow.

I am pleased with the first quarter results given the declines in most stock and bond markets around the world. There are two things of major concern to the markets: the war in Ukraine and the rapid increase in inflation (and interest rates).

The human suffering and destruction of the war can't be understated.

The isolation of Mr. Putin's regime also has an inflationary effect, being a major producer of natural gas and oil and, along with Ukraine, a supplier of grains consumed around the world. Inflation is a big elephant originating with the pandemic. To stave off a depression/financial collapse during the early stages of the pandemic, central banks and governments pumped money into the system. Adding to the cost spiral, covid restrictions and health issues have increased the cost of production and distribution of goods. The shortage of goods and the surplus of cash pushes prices higher.

Fortunately, steps to reduce the rate of inflation are being taken now, at least at the level of the central banks (ex. The Bank of Canada and the Federal Reserve in the US) to remove the excess cash in the system.

These are the two elephants: war and inflation. Normally I am quite fond of elephants, but not these ones as they cause uncertainty and hardship and you can't even pet them. ☺

So what to do?

One of my main investing principles is to own valuable real assets – such as real estate, pipelines, cell phone towers etc. Unlike printed money, they take time to build and become more valuable in dollar term when there is a bigger supply of money. This helps to protect our investment during inflationary times.

Not only are they valuable because there is a limited amount, but we use them constantly. We are heavily dependent on our electricity, phones, internet access etc. Consumers will not avoid their monthly bill for such services. This in turn creates an ever increasing and dependable flow of dividends to the owners of the shares. This is unlike gold, which only has any value because people think so and provides no income.

In the end, apart from short term money committed toward natural gas and oil and longer term money towards pipelines, there isn't a lot to do. Both of the elephants will eventually trundle off into the distance, just as they did after the assassination of the US president in 1963, the high interest rates of the 80s, the sovereign bond defaults of the 90s, the bank crisis of 2008 etc.

The (human) world has always been crazy, it is just that the here and now is so clearly in focus, that it seems worse.

Bottom line: stay the course, please phone me if you have concerns.

Timely Financial Planning tips:

TFSAs should have already been filled (if possible) in January. My version of "RSP Season" begins in earnest next month when we receive our Notice of Assessment from CRA for 2021. I make my RSP contribution in May and get an extra nearly 10 months of "growing season" over the folks who wait for the deadline next March 1, 2023.

A Recent Conversation About Insurance that Morphed into Estate/Incapacity Planning

It is always timely to get a will (and a power of attorney) if you don't have one. Dying without one (dying intestate), is a serious problem for the ones you leave behind. I had a conversation recently with a single parent with underage children. This person called me thinking that insurance was needed to look after the children. With a net worth of $2 million, the children will be well set up to start their young lives from a financial perspective. Rather, the children and extended family/close friends need a will to make the transition of child care easier from her/him to them. They are the ones who will be helping the children into adulthood. This person needs to find a power of attorney, willing guardian, executor for the will, a trustee to manage the money, and backups for all four.

If this person doesn't get the affairs in order and is, at some point, unable to manage their finances, someone will have to apply to the court to get a power of attorney to pay bills etc. These court applications are slow, expensive, and time consuming. If the person dies intestate, then someone has to make an application to the court to administer the assets. Other applications must be made for guardianship and to be trustees of the children's money. Provincial law will determine how the estate will be distributed. The kids may get a huge chunk of cash at age 19. Some 19 year olds will be able to handle big money, but many will make serious mistakes. This person has some work to do and some expense to pay - and it is not for their benefit, but for those who are left behind.

We are all back in the office and ready to receive you as we did prior to the pandemic. We look forward to seeing you - please reach out to us with your financial planning, insurance, and investment needs.

Happy spring!

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